THE MAGAZINE OF WALL STREET
and BUSINESS ANALYST

Member of Audit Bureau of Circulations

Volume 62 No. 6 July 2, 1938

The Ticker Publishing Company is affiliated by common ownership with the Investment Management Service and with no other organization. It publishes only The Magazine of Wall Street and Business Analyst, issued bi-weekly; Adjustable Stock Ratings, issued monthly; and The Investment and Business Forecast, issued weekly. Neither the Ticker Publishing Company nor any affiliated service or publication has anything for sale but information and advice. No securities or funds are handled under any circumstances for any client or subscriber.

CONTENTS

C. G. Wyckoff, President and Treasurer. E. Kenneth Burger, Vice-President and Managing Editor. Ralph J. Schoonmaker, Secretary. The information herein is obtained from reliable sources and while not guaranteed we believe it to be accurate. Single copies on newsstands in U. S. and Canada, 35 cents, special numbers, 50 cents. Place a standing order with your newsdealer and he will secure copies regularly. Entered as second-class matter January 30, 1915, at P. O., New York, N. Y., Act of March 3, 1879. Published every other Saturday.

SUBSCRIPTION PRICE—$7.50 a year in advance in the United States and its possessions, Canada and Pan-America. Foreign, $8.50. Please send International Money Order or United States Currency.

TO CHANGE ADDRESS—Write us your name and old address in full, new address in full and get notice to us three weeks before you desire magazine sent to the new address.

EUROPEAN REPRESENTATIVES — International News Co., Ltd., Breams Bldg., London, E. C. 4, England.

Cable Address—Tickerpub.

With The Editors

Revising A Rule

THERE is a venerable trading rule which warns: "Never sell a dull market short." How sound it can be, was shown very recently when stocks awoke out of their lethargy into the most pronounced rally in many months. Yet the precept as it stands expresses only part of the thought behind it, and for that reason it has compiled only a mediocre record in practical application.

For example, there have been two conspicuously dull periods within the last twelve months, considering activity in its relative sense. One centered around the month of August, 1937, and the other around May, 1938. In some averages the top last August was close to the peak for the whole recovery swing since 1932; THE MAGAZINE OF WALL STREET Index of 330 common stocks stood at 105. Volume of trading on the Stock Exchange was running at about one-quarter the rate of five months earlier and a noticeable number of important issues were not even traded in daily. Now that the sequel is known, could there have been a better time to sell a dull market?

The sluggish trading of late spring this year, on the other hand, occurred when prices were near their lows to date, and as it turned out preceded a sharp rally. This being an occasion when selling would have been decidedly unprofitable, the rule has had the record of one excellent hit and one disastrous miss over the last year. On the showing, it hardly seems to deserve its prestige.

The change we would recommend is a slight one. Simply make it: "Never sell a dull *and discouraged* market short." Then such occasions as last August, when business reports were cheerful and hope for the fall ran high, would not be covered by the warning.

When the reason behind dullness is exhaustion of buying power, inability to pursue further a long-sustained rise even though earnings and prospects seem limitless, interpret the pause as you will, but do not apply the admonishment against selling a dull market. Reserve it for times such as the more recent one, when the apathy toward stocks is apparently born of hopelessness. The dull market completely surrounded by gloom is probably the safest of all buying spots. It is the traditional recovery setting.

★ ★ ★ COMING FEATURES OF IMPORTANCE ★ ★ ★

In the next issue

Behind the Scenes in Labor

By Daniel Cronin McCarthy

In the three Issues beginning with July 30

Special Mid-Year Earnings and Dividend Forecast

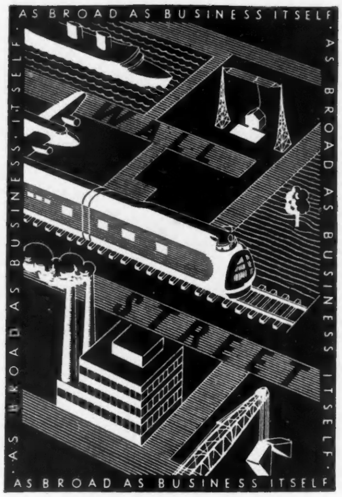
(All Leading Companies)

Nesmith

Construction continues a major factor in current business and in expected recovery. May statistics are encouraging and third quarter prospects have promise. **See page 325.**

THE MAGAZINE OF WALL STREET

E. Kenneth Burger, *Managing Editor* : C. G. Wyckoff, *Publisher* : Theodore M. Knappen, Laurence Stern, *Associate Editors*



The Trend of Events

NO CHANGE OF POLICY . . . The President's recent radio address to the nation leaves no doubt that if we are to have a reconstruction of business and investment confidence, it will be in spite of, rather than because of, the policies and methods of the Administration. It was an adroit, and militant, political speech which glossed over the New Deal's failures and exaggerated its accomplishments. For the accomplishments—which ignored record breaking and still mounting public debt while private investment remains stagnant—the President took credit. For the failures he blamed business reactionaries, the conservatives in Congress and—more mildly—unwise labor leaders.

Notice is served that the New Deal does not propose even to pause in its drive for social and economic reform, more Government planning, more regulation, indefinite borrowing and spending, more experimentation, more centralization of power in the hands of the President. Mr. Roosevelt demands "cooperation" from Congress, from the courts, from business men and from the labor leaders—but in such manner as to make it plain that "cooperation" really consists of bowing to his will and his opinions.

Mr. Roosevelt serves further notice that he will use the full power of his position in an effort to defeat opponents in the coming primaries and Congressional elections. In short, he wants a "cooperative" Congress—high minded and progressive yes men. The die is cast and the American people will have a fateful decision to make in November. Their votes will largely shape the future basic form of our government and the future basic form of our economic system.

FOR THE RECORD . . . Few Americans realize that in the fortnight before Congress adjourned it adopted two laws which can and may change the whole basic pattern of our constitutional system of government. One of these laws was the wage-hour regulation, the other was a measure dealing with flood control.

No doubt the objective of minimum wages and maximum hours, established by law, is desirable. None of us favors the "sweating" of labor. Flood control is likewise wholly desirable. It is possible that each of these laws will prove beneficial.

Nevertheless, we should clearly understand exactly what precedent has been set. Heretofore the right to legislate on minimum wages and maximum hours of work has been reserved to the states. Now it is taken over by our growingly powerful and centralized Federal Government. That is not all. If Congress can order a manufacturer to pay his workers not less than 40 cents an hour and to work him not more than 40 hours a week, has it not equal power to order a minimum hourly wage of $1 or $5 or what have you, and to set a maximum week of 30 hours or 20 hours or 10 hours?

In short, if this law is upheld by the Supreme Court,

it will establish for the present certain reasonable standards, but it will also establish for all future time the *principle* of political regulation of wages and hours. It will give every demagogue a standing invitation to campaign for office on promise to raise minimum wages, shorten maximum hours.

The flood control measure empowers the Federal Government to condemn land that is needed for flood control projects and related hydro-electric projects. The states will have no say and even state-owned land could be taken over by process of Federal condemnation.

The New Deal trend toward Government-run-everything was not halted by the last Congress. On the contrary, we moved several more miles along that road. Whether the next Congress will insist on a halt, detour or retreat we shall not know until the early hours of Wednesday, November 9, when the votes in the Congressional elections will have been counted.

TWELVE BILLION DOLLARS . . . The Government's bookkeeping these days is a thing of baffling complexity to the layman, and is none too simple for the experts. Thus, the best Washington newspaper correspondents could give only rough estimates of how much money the last Congress appropriated for all purposes of Federal government. It was generally agreed, however, that the amount was around $12,000,000,000.

That is a lot of money. Indeed, any nine-cipher figure approaches the astronomical and is utterly beyond easy comprehension by the average individual. Well, how much is $12,000,000,000? To calculate how many times 12,000,000,000 $1 bills would stretch around the equator if layed end to end would not give the picture. To cite the fact that $12,000,000,000 approximates the entire investment in the electric power industry comes nearer the mark, but still does not bring the reality home.

You can get it in its true proportions by thinking of it in terms of wages and salaries, for what man earns by the sweat of his brow is in the realm of every day experience. What is $12,000,000,000 when we relate it to wages and salaries? Just this: In the most prosperous year that American industry ever had—1929—the total of all wages and all salaries paid by all manufacturing enterprises in this country was $12,050,212,000. We arrive at the same reality by noting that the money Congress has appropriated in one session exceeds by probably 40 per cent the total that all workers in all industrial enterprises can earn in the next year.

Is anybody excited about it? Probably not. Neither were the Germans excited early in the '20's when their government finance began to be figured in billions, but soon the amounts were in trillions and there came a time when it took a bushel of pieces of paper to buy a loaf of bread. As compared with that orgy, of course, the gentlemen in Washington are still playing with mere pocket money. But they are also playing with fire — and their spending ambitions get ever more grandiose.

The average gainfully occupied person in this country may earn around $1,500 this year. If our Senators and Representatives worked for that wage, they would have to work more than 15,000 years to earn $12,000.000.000. Maybe that's an idea.

NEWS FROM THE FRONT . . . Japan wins all the battles in China, but is little, if any, closer to winning the war. What is going on in Tokio is more revealing than the military moves and counter-moves on the far-flung Chinese battle fronts. Prices are rising in Japan and about every two months a new set of economic controls is announced. The latest batch of restrictions seeks to regulate consumption of metals, chemicals, oil and gasoline, rubber, cotton, wool, linen and lumber; to promote greater use of synthetic materials, as in Germany; to tighten control of imports and exports; to regiment distribution; and to promote "thrift" among the people by which "an estimated 2,320,000,000 yen would be saved in 1938." Thrift among the people apparently means (again as in Germany) that they must work more and eat less. Developments in Tokio indicate the Japanese expect to have a tough time winning the war.

Turning to the other fields of warfare, the latest of the numerous "quick victory" drives of the Franco forces in Spain has petered out into the familiar stalemate, leaving the final outcome still uncertain as the diplomats spar for time and advantage. Finally, while Germany may yet precipitate a cataclysm by attacking Czechoslovakia, this is in the field of conjecture, whereas in the field of reality we can put our finger on the fact that Germany some weeks ago openly threatened such an attack, had her bluff sternly called for the first time in the Hitler career—and backed down.

The prestige of the Fascist rulers may not be in a bear market, but it has at least suffered a stiff reaction. There has been a welcome rally for the cause of democracy and peace.

STEEL PRICES WEAKEN . . . For months the steel industry has been under pressure to reduce prices. Potential buyers have clamored for concessions. Government officials have repeatedly attacked the industry's "rigid" pricing policy. The reply of all steel men has been that high wages are responsible for high steel prices and that prices could not be cut without equivalent reduction in hourly wage rates. Unofficial negotiations have been reported between the biggest steel manufacturer and the leaders of the C I O for a joint price-wage adjustment.

Regardless of the merits of the issue, the industry's strategic position has appeared a bit weak, for while it took the position that wage cuts must accompany price cuts the fact is that unofficial price shading has been very general—so much so that recent formal announcement of new and lower price schedules has merely recognized existing conditions. On the other hand, the union leaders have taken a firm public stand for wage maintenance, with the open support of the Roosevelt Administration,

and—labor union politics being what it is—would find it difficult to reverse this position.

THIS BUYING OF SURPLUSES . . . The announcement that P W A would buy $10,000,000 worth of clothing for relief purposes follows logically upon the buying up of surplus this and surplus that farm product. It is, however, something of a milestone, for it is the first time the Government has entered the field of manufactured goods on a large scale and, while we are manifestly "on our way," it might be well to pause and inquire as to the direction. If we ask why these surpluses are being bought up, we are told that they weigh upon the market and their removal means jobs for those unemployed. This seems all right until one wonders what kind of jobs the buying up of surpluses will create, the only answer to which is the job of making another surplus. And then we suppose the Government will buy this up and so on indefinitely. Fine! But why not carry so excellent a scheme still further? There's a surplus of automobiles in dealers' hands—if there isn't, we could make one. Let the Government buy it so that the W P A workers will be able to get on the job with really nice cars instead of the old rattletraps some of the less prosperous have been using. And why stop here? The Government could buy surplus steel and surplus oil, surplus ships and surplus toys and we'd all be happy working, creating these things again. Why, we might even have to set up a special sub-division of the Federal Surplus Commodities Corp. to handle the surplus editorials written by the surplus editorial writers! We expect to find our readers behind this proposal to a man, for of course surplus stocks and bonds would be handled, too.

BANK RULES LIBERALIZED . . . The three federal agencies responsible for bank lending and investment policies have announced new rules, effective July 1st, looking toward freer use of the vast reservoir of credit which has been slow to move into the desired channels. While reserves have been accumulating and officials have been condemning the banks for their timidity in putting their money to work, bank examiners have naturally been cold-blooded in insisting upon strict compliance with existing standards. The beratings for over-conservatism have received more publicity than the warnings against liberality in lending or speculation in bond-buying, but the bankers know that without some such step as the present one their choice is Hobson's.

Changes affecting bond portfolios are aimed at allowing the banks to "get away from the ticker tape" as Chairman Eccles expressed it. Along with the new leniency in pricing these issues, the unlisted bonds of small local companies may be bought and loans may be made for longer terms provided only they are "sound." With any part of the success hoped for, the new rules may tend to discourage the process of buying bonds on the rises and selling on the declines, loaning freely in good times and tightening up in bad. As for the longer future, we seem to have accepted the FDIC as the guarantor against any harm to our banking structure and this move merely increases the potential usefulness of and need for that agency.

WANTED: A CONSUMERS' CHAMPION . . . The years have made representative Wright Patman's attitude towards the chain stores constantly clearer. If there was a remaining doubt, it has now disappeared. The other day at Cincinnati before the National Association of Retail Grocers he came out flatly and said that he sought the elimination of the retail grocery chains. Putting the chains out of business he contends will make jobs for a million persons. Maybe, apart from what it will mean to those who have invested money in the chains, it is going to mean higher prices for foodstuffs, for the whole complaint of the independent grocer centers on being unable to compete with the chain on prices. Now, chain store customers have just so much to spend. Make them pay more for food and they are going to have less to spend for furniture, for clothes, for automobiles. Legislation such as proposed is merely going to divert so much spending power from other industries to the independent grocers. In plain English, it is a subsidy that the latter are seeking. It can be pointed out, of course, that the farmers get their subsidy, the shipping interests theirs, that the veterans got their bonus and that the citizen, "busted" as a result of all this, can go and get his at the hands of the W P A.

The way to a true prosperity lies in getting products into the hands of the ultimate consumer at prices which drift steadily lower as a result of improved methods of manufacture and distribution. We have no doubt that Representative Patman as the self-appointed leader of the independent grocers will move against the supermarkets if, and when he brings his present campaign to a successful conclusion and discovers that there has evolved a method of distributing foodstuffs which may prove to be even more efficient than the chain.

THE MARKET PROSPECT . . . Our most recent investment advice will be found in the discussion of the prospective trend of the market on page 320. The counsel embodied in this feature should be considered in connection with all investment suggestions elsewhere in this issue. Monday, June 27, 1938.

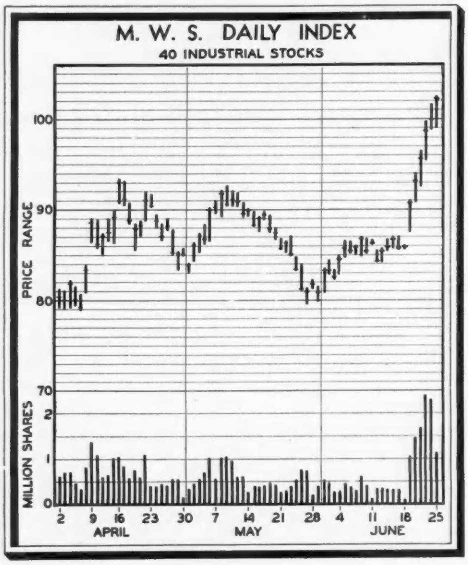
Market in New Phase

BY A. T. MILLER

In our issue of May 21 we stated here: "Liquidation appears to have spent its force and the low of March is likely to represent bottom for some time to come, if not permanently. We recommend selective purchase in any periods of recession."

In our issue of June 4 the vulnerability of the short position was pointed out as follows: "In the present setting we have a prevailing psychology of confident bearishness. Judging by April figures and May gloom, the short interest today is probably larger—relative to trading volume and brokers' loans—than at any time in some years. Bears are more confident that United States Steel is a sale at 40 than they were when it was at the top of 126½."

In our analysis written a fortnight ago, after commenting on the encouraging manner in which the market had resisted unfavorable news for many weeks, we observed: "Meanwhile, with the rallies becoming shorter and the March low holding, the effect is a progressive narrowing of the trading range—pushing the market into a tightening technical corner. No such impasse has ever lasted very long, even in times of seeming complete speculative inertia. We have a feeling that we are not far from a more decisive movement."



The above references are cited only in part as a self-indulgent pat on the back for ourselves. They contain the background which explains the explosive character of the advance that got under way on June 20. The fuse which finally touched off that explosion had been burning for many weeks, although at no time prior to last week had a positive bullish signal been given and at no time prior to last week were conservative investors and traders on other than wholly sound ground in holding to a cautious attitude pending definite evidence of a change in trend.

What did the fuse consist of? Waning pressure of deflation, as reflected in four months of steadiness in our adjusted business index, more than ten weeks of dull and narrowing fluctuation in the market above the low of late March, gradual improvement in the credit factors, as shown by persistent strength in highest grade bonds; weeks of over-bearishness among speculators and the resultant cumulative building up of technical market strength; the approaching seasonal period in which the market has almost invariably looked with hope to the autumn business prospect; the recovery in spot and future commodity prices which got under way around June 1; the launching of the Government's spending program; and, finally, the adjournment of Congress.

In that setting the slighest visible change for the better in the current business picture was capable of effecting magical change in investment and speculative sentiment. And there was a change for the better—slight but visible—in demand for cotton textiles, which have often signalled the turn out of a depression; in steel operations and in motor sales and output.

Many people were surprised by the speed and scope of the market's advance, a six-day recovery unmatched by any week in many years, a straight line rally unequalled by any week even in the galvanic rebound of the spring of 1933. It is not really surprising on retrospect—no more strange than the swift collapse of last autumn. As we have repeatedly pointed out, the dynamic technical factor in present-day markets is thinness, brought about by the various New Deal curbs on speculative and investment activity. This works both ways. Concentrated liquidation last autumn was not at all abnormal as judged by former standards of volume, but the market was too thin to absorb it without collapse. Last week's volume of 10,112,000 shares—a daily average of approximately 1,700,000 shares—was not heavy as judged by past standards, but the concentration of short covering and new investment and speculative buying in a thin market had precisely the reverse technical effect of the concentrated liquidation we saw last September and October.

So much for the record. Where do we go from here? It is certain that the intermediate trend has been reversed and it is probable that the major trend has also been reversed. Regarding the latter point, however, we see no need for taking a dogmatic view. Sustained bull markets are not born overnight. Even though stock prices appear unlikely to test the March lows again this

The intermediate trend is upward. We advise selective purchases in periods of technical recession, with the reservation that positions may have to be re-appraised later in the light of autumn political and business developments.

year—with inflationary Government spending and credit moves a strong supporting influence—major advance requires prospect of a strong capital goods recovery such as got under way in 1935. For more than eighteen months prior to that time and after severe reaction from the sharp spring and summer advance of 1933, the market movement consisted of a series of intermediate fluctuations, all in depression range but above the extreme lows.

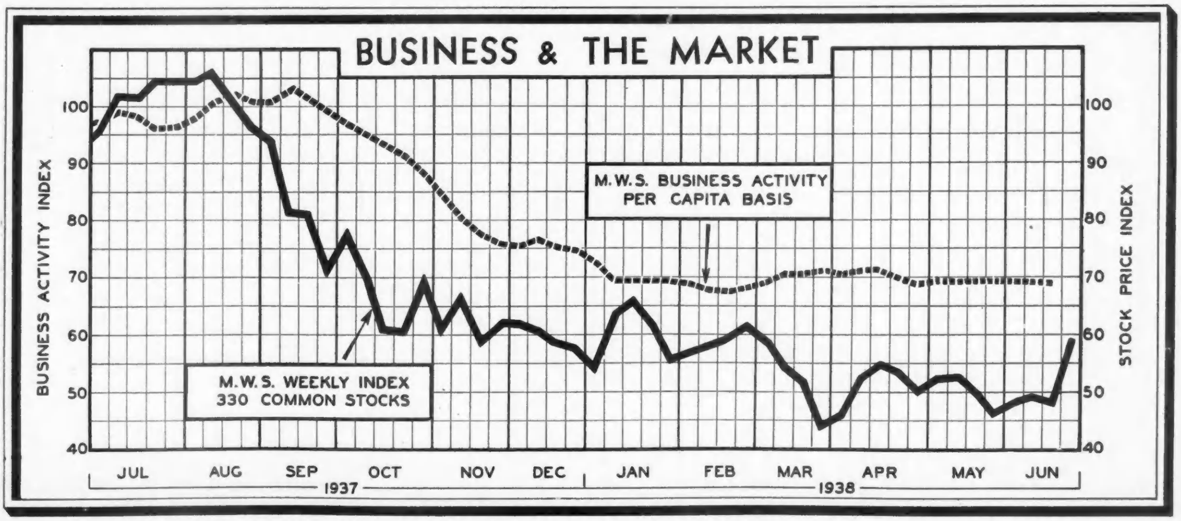
We do not for a moment predict that this history will be repeated. Yet it would be foolish to ignore the fact that it will take more than the recovery in consumption goods industries—now apparently beginning—to support a sustained bull market. Nor can it be ignored that uncertainty regarding the outcome of the crucial Congressional elections in November will be an increasing market factor some weeks hence. Regarding this problem, we cannot help but remember how the notably sharp market recovery in the late summer of 1932 was halted in its tracks and reversed when the Maine election gave the first evidence of the direction in which the political winds were blowing. In most industries dynamic recovery in earning power—always the most potent single influence on stock values—is not a probability of the period between now and November. Some time between now and the elections—possibly with a significant clue or clues coming out of some of the coming primaries—it *may* be that the stock market will again find itself in a vulnerable position.

It is not necessary, however, for investor or longer range speculator to worry now about a possible stiff reaction sometime in late summer or autumn. We believe the market outlook is generally favorable for the next six to eight weeks, and that the sensible course is to make selective commitments in periods of technical recession but to regard all such commitments essentially from an intermediate point of view. That is, to buy stocks now with the mental reservation that the position may have to be reappraised in the light of autumn political and business developments.

This is not only a sound policy but, in our opinion, should afford opportunity for profit in the event that later developments indicate the desirability of returning to the cautious side.

Despite the sharpness of last week's advance, we feel it risky to make any guess as to the timing of a short swing corrective reaction. The very scepticism with the rally has been regarded—with many traders persisting in "fighting" it—is a point of technical strength, as is the number of potential buyers anxiously awaiting the first reaction, including the "sold out" bulls. The very technical and psychological factors which made last week's movement possible may conceivably defer and limit the widely expected reaction.

In this connection, regardless of technical reaction, it should be observed that the phenomenon of a buying rush and resultant technical congestion is much more frequently associated with the start of an intermediate recovery than with its termination. Sizeable percentage recoveries, whether figured from the extreme low of March or the intermediate low of May 31 are misleading. Our weekly index of 330 stocks at this writing has advanced a little over 15 points from the low of March but is merely back to the (*Please turn to page 367*)



The Big Question Business Men and Investors Are Asking:

Does Roosevelt Really Want Recovery?

BY RAY TUCKER

A CONSTANTLY recurring question among close observers of the New Deal's more recent trends hinges on whether Franklin D. Roosevelt really wants recovery—now! In his attentiveness to leftists rather than rightists in his immediate circle, in his advocacy of laws bound to create new uncertainty among business and industry, in his determination to exalt liberals of any breed rather than old-fashioned Democrats, and finally in his utter refusal to rescue such private employment agencies as the railroads and utilities from fear of government ownership or competition, he has raised anew the suspicion that he prefers immediate reforms to permanent recovery.

There is no intent here to suggest that the President deliberately seeks to prevent forever a return to normal conditions, or to an approximation of what Warren G. Harding called "normalcy." Nobody denies that he has a sincere desire to restore comparative happiness and prosperity to the American people. For the sake of his place in history, if for no other reason, Mr. Roosevelt wishes to be known as the Chief Executive who found the nation in a prostrate position and set it on its feet. But it appears that he will be satisfied—and he hopes his countrymen will be—only with his brand of treatment rather than any substitute. It must be a "Roosevelt recovery," nobody else's.

> **"For the sake of his place in history, if for no other reason, Mr. Roosevelt wishes to be known as the Chief Executive who found the nation in a prostrate position and set it on its feet. But it appears that he will be satisfied—and he hopes his countrymen will be—only with his brand of treatment rather than any substitute. It must be a 'Roosevelt recovery,' nobody else's."**

Under such circumstances it is quite understandable why the President should be willing to prolong the depression for a while—or to refrain from action that might cause it to disappear. History teaches him that people take one of two paths when they are desperate. They enthrone a system of fascism or communism—the same thing, philosophically—or they plunge into a period of frantic social and economic experiments. In view of the American temperament, Mr. Roosevelt has ample ground for the belief that they will choose the latter course. In short, he probably feels that bad times are more propitious for further innovation and renovation than an era of steady and swift economic improvement.

In rationalizing such a scheme, Mr. Roosevelt may believe that a temporary decline will advantage the people in the long run, provided it enables him to change the rules of the game of living. He reasons, as do physicians, that it is safer to keep the patient in bed a while longer, lest he contract another illness by strolling in the sunlight and fresh air too soon. To use a historical parallel, he has adopted the thinking of Republican reconstructionists after the Civil War. They, too, were sincere men, but they kept the South in subjection for decades in order that they might impose their social and political ideas on the vanquished brethren.

Consciously or unconsciously, it is certain that the Administration does not seem anxious to relieve the business and industrial community of the burdens which stagger large employers and investors. Even in the choice of advisers, Mr. Roosevelt appears determined to serve notice that his eyes are on mystic mountains rather than empty and lifeless factories. Almost blatantly he lets it be known that he listens to the men whose views send shivers along the spines of those with large investments at stake—of those who dare not employ men and money without assurance of a more businesslike spirit at Washington. Likewise he permits his differences with party conservatives, and their squabbles with the left-wingers, to become publicized.

On taxes, for instance, he listens to the Oliphants and Corcorans rather than to the Garners and Harrisons. On finance he leans toward Marriner S. Eccles rather than toward Jesse H. Jones or Carter Glass. On relief practices and expenditures he heeds Harry Hopkins instead of Henry Morgenthau. In every field—agriculture, power, industrial regulation—he courts the most extreme thinker rather than men of practical experience. And after each clash among these conflicting groups he moves farther toward the left, as if in resentment against

family attempts to keep him "only slightly left of center."

His present "purge" of hostile Democrats is designed solely to assure a Congress which will enact radical laws that were blocked at the last session—a new revenue bill incorporating the Oliphant theory of using taxation as a social weapon, a reorganization bill that will vest more power in his hands, a seven-T V A measure, and sundry other New Dealisms. In Florida, Pennsylvania, Oregon, Iowa and Minnesota he intervened to strike down those who dared to resist his more extreme legislative demands, and to bring to Congress radicals who will stay hitched. In Minnesota the official blessing was given to a Farmer-Laborite, as it will be extended to La Follettians in Wisconsin in their time of trouble, and perhaps to American Labor Party favorites in New York.

In order to effectuate further reforms, the President is willing to destroy the Democratic party. He has informed friends that he will henceforth forget that there is such a word as "Democrat" in the political dictionary, and emphasize the need for electing "liberals" to House and Senate and even Governorships. This party-smashing scheme has caused heartaches to such old-fashioned politicos as Vice-President Garner and National Chairman Farley, but their home-sweet-home protests fell on ears attuned to "swing" music.

Mr. Roosevelt, in all these encounters, relied on Harry Hopkins and 'Tommie" Corcoran—rather than on "Jack" and "Jim." As he insists upon his kind of reform, so the President insists upon his kind of party, even though it means the destruction of the present organization.

In his Arthurdale speech denouncing the Doughton-Harrison tax bill, Mr. Roosevelt undid much of the good which that measure was designed to effect. Whereas modification of the capital gains and undistributed profits levies was expected to relieve industrialists and financiers of the fears which froze their funds, the presidential demand for reincorporation of those provisions in a new law at the next session had the opposite result.

If, so the victims reasoned, they are to be super-taxed in 1939 or 1940 for present profits—if any—why bother to take chances, to invest, to reemploy. It was this dollars-and-cents aspect of the presidential rebuke which drove Finance Committee Chairman Harrison to refute his party leader on the Senate floor. In connection with the thesis of this article, it is pertinent that the tax tirade was written by "Tommie" Corcoran rather than a Treasury expert.

The on-again-off-again attitude which the White House exhibits toward the private utilities suggests no immediate desire to stimulate this twelve-billion-dollar industry into life—or into furnishing jobs. Despite several tentative moves for peace, Mr. Roosevelt demanded—and obtained—adoption of a flood control law which permits federal domination of almost all the power

resources in the country. Some of his advisers believe it obviates the need for enactment of the Norris, seven-T V A bill. Thus, as the writer predicted in a preceding article, the White House has won its major objective on this battlefield by a flank attack.

Now, the President realizes that power companies will not expand their plants beyond compelling needs unless they can be assured of less rather than more competition from the government. The leading spirits behind the attempt to negotiate a workable peace were such New Dealers as Mr. Eccles and S E C Chairman William O. Douglas. For the sake of preserving the worth-while features of the presidential system, and in order to restore a semblance of prosperity, they begged Mr. Roosevelt to restrict the sphere of his operations. For a while it appeared that they had persuaded him. But at the last moment he sponsored a bill that carried pork for the politicians and punishment for the utilitarians. Here, it is evident, Mr. Roosevelt prefers reform to recovery.

Even more puzzling was his treatment of the railroads now in bankruptcy and those tottering on the brink. For months, despite the most dramatic evidence of the need for action, he temporized. He framed no program for government aid or self-aid, he raised objections to Senator Wheeler's proposal to let them "go through the wringer," he rejected suggestions offered by the labor and management interests involved. He discussed reorganization somewhat vaguely now and then, but he never did anything about it.

Not until the closing days of the recent session did Mr. Roosevelt make a definite move. Then, with reports that four more lines may fail *before the November elections,* he demanded a bill providing new loans and a speedier system for reorganization than the bankruptcy courts. He voiced this desire at one of his Monday morning conferences with his legislative leaders—Vice-President Garner, Senate Leader Barkley, Speaker Bankhead, House Leader Rayburn.

The last-minute proposal stung Mr. Rayburn. He explained that he had promised his boys and girls that he would bring up no new, controversial legislation so late in the session, and he meant to keep that promise. The Vice-President agreed that "Sam is right." So, though the need for action had been obvious for many, many months, it was political rather than economic exigencies which finally forced the White House to move too late. And the imminent collapse of several big lines may deepen the encircling gloom, creating an unfortunate and still more depressing psychology.

Radicals Want Government Ownership

The President professes a distaste for government ownership. But some of his aides, including those to whom he listens most attentively, want and anticipate it. They favor fresh loans to the lines in the hope and expectation that the roads will become so heavily in hock to Uncle Sam that the only solution will be to take them over. And the corollary is that, the more bankruptcies there are, the cheaper can the government buy them out.

In view of the part which a healthy transportation system and private utilities setup play in stirring the heavy industries—in opening the capital market—in furnishing jobs—in maintaining purchasing power—the Administration's indifference to their fate is explainable only on the theory that Mr. Roosevelt really does not want recovery—now! There is also the definite suspicion that, whether he realizes it or not, some of his smart boys are quietly arranging the scenery for government ownership and operation in the not so far distant future.

On the industrial front Mr. Roosevelt delivered two attacks which admittedly headline reform above recovery. He revived a dead-and-buried wage-hour bill, with the result that there emerged a law fully as threatening to industry as the outlawed N R A. Though the wage and hourly schedules constitute an improvement over the original 40-40 scheme, the provision for establishment of industrial commissars to determine changes and exemptions in any particular field opens the door to arbitrary, administrative control. It also promises recurring periods of uncertainty when a manufacturer cannot figure future costs and prices. It is this feature which irritates its victims most grievously.

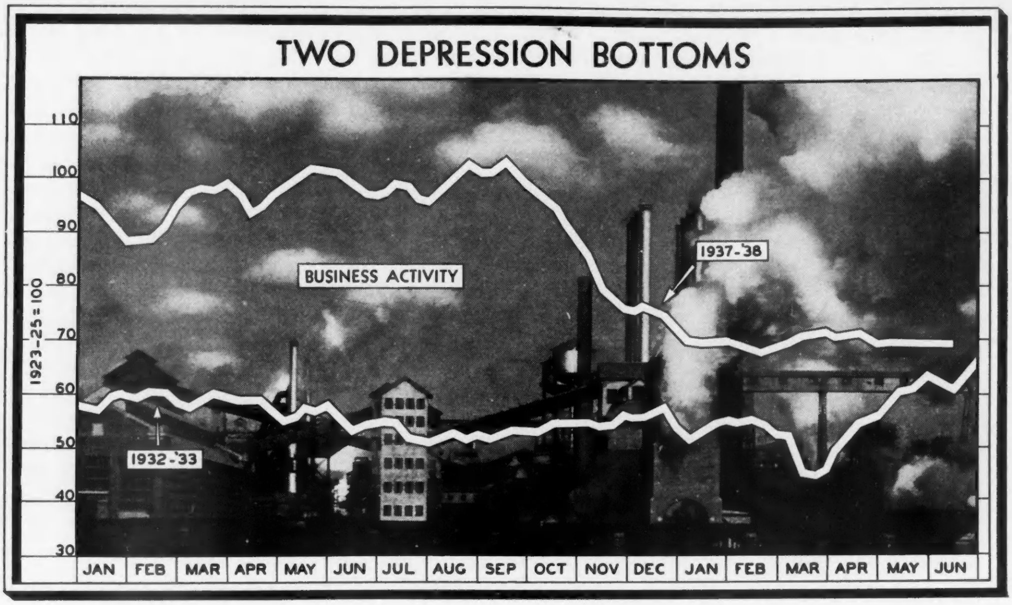
Industrial Controls

While it is true that the N R A touch was applied by southern legislators insistent on a system of differentials, the President furnished the occasion by exerting pressure for some kind—any kind—of a law for new industrial controls.

The other hostile demonstration consisted of the monopoly hunt born of the Roosevelt-Jackson-Ickes denunciations of concentrations of industrial and financial power. As the resolution was introduced by Senator Joseph P. O'Mahoney, it was not intended to be a witch-burning affair. He simply wanted a factual and technical study of this difficult problem as the basis for new legislation. He did not seek to put Henry Ford or the Du Ponts—or Mr. Roosevelt—on a spot.

In their appointment of the six legislative representatives, both Vice-President Garner and Speaker Bankhead adhered to the O'Mahoney idea. With possibly one exception—Representative Ed Eicher of Iowa—they are not notorious New Dealers. They are sane, sensible men, and even New Dealer Eicher has a high reputation for ability and fairness among his colleagues. But the President's appointees will undoubtedly reflect his more extreme viewpoint of breaking up concentrated wealth and industrial power. As soon as hearings begin, probably late this month, it will be possible to discover whether they mean business or monkey business.

For all these reasons—and others too numerous to mention—the question of Mr. Roosevelt's unknown intentions and desires has become a live topic at the Capital and elsewhere. However, there is some solace—and protection—for business and industry. If the present "recovery drive" has not succeeded as advertised by the time Congress reassembles next January, the boys and girls will have no stomach for new tinkering with the economic machine. And if it has, even temporarily, reduced relief rolls and increased employment, they will be even less eager for fooling around. For—make no mistake—the politicos want recovery in a big way even if they have to fight the White House to get it. And they'll be less amenable when the elections are behind them.



What to Expect from Third Quarter Business

Grounds for Modest Optimism Become Apparent

BY JOHN D. C. WELDON

THE nearer we come to the summer business "stagnation" or "paralysis" that was so widely forecast in recent months the less frightening it looks. Business, of course, will be at a very low level during the third quarter, but not nearly as low as during the final months of the 1929-1933 depression—and probably little, if any, worse than it is right now.

Fear of devastating business collapse is usually greatest when collapse is already a matter of history. A chart of business sentiment over the past several months would show a steeply descending line. Looking at such a chart and listening to the chorus of gloomy observations, one would get the impression that the business decline has steadily deepened. The fact is that per capita business activity at this writing is a bit higher than it was at the low point of February and that, while at an unfavorable level, it has now been notably steady for about four months. The sensational collapse occurred between mid-September and the first week of December last year—during which period business sentiment was much more cheerful than it has been at any time during the second quarter of this year.

If we were heading for further severe slump in July or August, it is hard to understand how business could have been so steady in May and June. On the contrary, the June performance can logically be taken as a basis for hope that the July-August trend may also be relatively steady or that, at worst, our seasonally adjusted composite business index will show only very moderate additional decline. It may, indeed, show some advance.

Today there is some evidence of actual business improvement. It is very slight, but at a time when sentiment has become attuned to further losses even the most trifling gain carries magnified reassurance.

Steel operations, instead of slumping further, have recently shown a modest recovery due chiefly to better demand for structural steel and an upturn in miscellaneous orders which reflect the filling in here and there of depleted steel inventories. The industry now regards the summer and autumn prospect a bit more cheerfully, expecting some fairly good orders to come out of the pump priming and naval armament programs. The price of steel scrap—widely respected barometer—has had the first rally in many months.

The volume of construction is holding up in encouraging fashion, with May total larger than a year ago.

While the gain was due to increase in public works, all types of private building in May were down only 8 per cent from a year ago. From present indications June building will better the May results by about 10 per cent. Increased F H A mortgage activity in recent months points to fairly good outlook for building during the third quarter.

In the automobile industry there has been a slight recent improvement in sales and the summer slump is not now expected to be as severe as had been anticipated a short while ago. While operations are being cautiously geared to sales trends from week to week, the summer shut-down in most plants probably will be only for three weeks.

Month after month there has been progress in inventory, price and cost adjustments. This has gone farthest in consumption goods lines but also extends to some heavy goods, as, for instance, the considerable price reductions just announced by Caterpillar Tractor. The wide discrepancy between retail trade volume and primary production gives a general indication of the depletion of inventories. Fill in and autumn orders for general merchandise have picked up considerably.

Spot and future commodity prices have had the most hopeful rally in many months, having maintained an upward trend from the first of June to the present writing with both agricultural commodities and industrial raw materials participating in the movement.

None of these various indications is vigorous enough to constitute proof that significant general recovery has started or is starting, but they do seem to afford hopeful evidence that business activity may now be scraping bottom. Among business men and economists the most prevalent view is that the turning point probably will be seen either in July or August and that by October a recovery of at least moderate proportions will have been experienced. In terms of the Federal Reserve Board's adjusted index of production, conjectures as to the gain from the summer low to the October level range from 7 to 12 per cent.

For June this index is unofficially estimated at about 74 per cent of the 1923-1925 base period. It has shown an uninterrupted decline of 46 points over the past eighteen months. A 12 per cent rebound from the present level would make up only a trifle more than one-fifth of the ground lost in the depression. This would not seem an unreasonable expectation, in view of the increasing Federal spending, the movement of large farm harvests, the motor industry activity incident to inception of the new model year and the relatively favorable outlook for revival in consumption goods lines.

Regarding consumption goods, the significant fact is that a large proportion of sales for more than six months has been fed out of existing stocks. In other words, even if merchandise trade during the second half of the year should average moderately less than during the first half, a volume of new orders equal merely to that rate of consumption would necessitate a considerable increase in manufacturing activity from the present low level.

On a national average retail trade is now some 16 per cent lower than a year ago in dollar volume, but with allowance for lower prices shrinkage in physical volume as compared with a year ago probably does not exceed 8 or 9 per cent. Decline in trade has lagged well behind the slump in industrial production, reflecting relatively slow shrinkage in the national income and stimulating effects of sharp price reductions and special sales. In recent weeks trade has fallen faster than industrial production and it may decline somewhat further this summer even if, as seems to be the case, industrial activity is now virtually stabilized. On the bright side, decline in employment and payrolls has slowed down considerably, purchasing power of wage and salary workers will probably show no significant additional decline in the forepart of the third quarter and should show a modest upturn before the end of the quarter.

Cash farm income is now about 16 per cent lower than a year ago, reflecting major deflation of farm prices. Government loans to wheat, corn and cotton growers, however, will tend to support prices during the summer and autumn, as will direct Government purchases of some farm commodities. It therefore appears likely that cash farm income, supplemented by Federal relief spending and earlier soil conservation payments, will be stabilized during the third quarter at a level about 15 per cent lower than a year ago. Thereafter comparative rate of decline should tend to narrow both because of large marketings and because comparison will be with sharply declining farm income during the closing months of 1937.

Aside from effect on farm income, the prospective large crops—greatly reduced cotton output being the major exception—will contribute badly needed business to the railroads and other enterprises concerned with the marketing, storage or processing of farm commodities. Reflecting chiefly some increase in movement of grain, general merchandise and coal, car loadings have shown moderate improvement over the past fortnight. Seasonal trend of car loadings is always upward during the third quarter.

While the world economic trend appears downward, indicating decreased exports of our industrial goods, European crop prospects are generally poor and this should hold promise of larger agricultural exports. Normally crop failures are (*Please turn to page* 364)

The Business Balance Sheet

Favorable Factors:

The depression is flattening out.
Federal pump priming speeding up.
Capital financing slightly improved.
Progress in price-inventory adjustment.
Rally in commodity and security markets.

Unfavorable Factors:

Long term investment confidence lacking.
Fear of mounting Federal debt and taxes.
Uncertain outcome of November elections.
World economic trend is downward.
European war fears not ended.

Looking Through Dark Glasses

It is questionable whether there is any such thing as strictly objective thought. What physicians, psychiatrists and psychologists know about the human mind is far transcended by its yet unsolved mysteries. Do we actually reason? To some extent, and most objectively if the problem posed is relatively unimportant. But what if decision must be made on a course of action vitally affecting one's personal welfare? The more vital the problem, the more likely reason will be warped by hope or fear. This is as true of the mass mind—the collective psychology of a nation—as it is of the individual. The cycle from mass hope to mass fear is even more extreme than the business cycle. In 1929 no stock was thought to be high enough. In 1932 none was considered low enough, even though priced at less than the actual cash behind it.

Through the early stages of a major depression, no matter how serious the real situation, the mass mind continues to see through rose colored glasses. Everything is fundamentally sound. The tycoons of politics and finance outdo each other with reassuring statements. But there comes a time—as in recent weeks—when, individually and collectively, men seem to get a certain morbid pleasure out of adversity. Every item of bad news is avidly emphasized, and good news leaves us cold, doubtful, suspicious. The psychology is similar to that which causes us to grumble bitterly at an average snowstorm but get a kick out of it if it reaches record depth.

By the end of March all hope of spring business improvement had been abandoned. During the twelve weeks that have since elapsed our mass mind became more fearful than at any time since the summer of 1932. Yet at this moment representative industrial stocks are 33 per cent higher than they were on March 31 and aggregate business activity is rising moderately. Contrast this with the twelve weeks from mid-September to the middle of December last year. Then our collective mind was hopeful, trying to see the bright side. But in *that* period business activity plunged down 26 per cent and industrial stocks 27 per cent. Looking back only a few weeks, the most hopeful thing that could then be detected was the general fear, despair and pessimism. The barometer of human hope sinks lowest when clearing skies are not far ahead.

Happening in Washington

BY E. K. T.

Congress' record of important legislation passed is quite imposing, particularly since rows with President and general inactivity made it look like a "do nothing" session a few weeks back. Majority of new laws were shoved through just before adjournment though committees had worked on most of them for months. Many of these are of great import to business and some had been pending for years.

Federal power is extended to new fields and industries in many ways by new legislation. Examples: wages, hours, child labor; cosmetics and many segments of foods and drugs; advertising; natural gas; security dealers; aviation; motor carriers; unemployment insurance; crop control; business loans; low cost housing; stream pollution flood control; venereal diseases; foreign propaganda.—In the aggregate very significant of a trend.

Roosevelt's prestige with Congress staged a remarkable come-back, probably unprecedented in United States history. Following his mid-session defeat on government reorganization, the tax bill revolt, wage-hour bill recommittal, and inaction on "7 T V A's," bank holding companies and railroad aid, he refused to budge from his objectives, struck back indirectly, and ended by getting most of his program in the way he wanted it. Congress became convinced Roosevelt knew what he was talking about when he insisted the people are still with him, and feared punishment at the polls. This means Roosevelt's personality and New Deal objectives will dominate the fall election.

Special session rumors accompanied Congress' adjournment. White House let it be known quite definitely that such is certain if railroads go to smash and continuance of service is threatened. Rail, financial and labor situa-

Important Enactments of This Session of Congress

Appropriated more than 12 billion dollars, largest in peace-time history.

Pump-priming resumed and relief expenditures increased.

Tax revision act of 1938.

Wage-hour law.

Food and drug act revised, extended and tightened.

Federal Trade Commission powers increased and extended to advertising.

Bankrutpcy statutes completely rewritten.

Natural gas pipelines placed under federal control.

Over-the-counter traders brought under S E C.

Civil Aeronautics Authority created.

Huge national defense program launched.

Merchant Marine act extended.

I C C given more authority over motor carriers.

Federal unemployment system for rail workers.

Crop control program enlarged by several acts and appropriations.

R F C loans authorized for business.

Federal Housing act liberalized and enlarged.

Slum clearance program extended.

Stream pollution control act.

Flood control act.

Venereal disease control act.

Customs administration laws completely revised.

Federal highway aid extended.

Federal court procedure rules revised.

Additional federal judgeships authorized.

Postmasters placed partially under civil service.

Several minor amendments to banking laws.

Treasury's bond issuing authority increased.

Liquor taxes increased.

Several excise taxes terminated.

Anti-strike breaker law tightened.

Registration of collective trade marks authorized.

Registration of foreign propaganda agencies required.

Patent office practice regulations revised.

Reduced interest rates on farm mortgages continued.

Investigations authorized—Monopoly and business practices; Tennessee Valley Authority; Phosphate resources and conservation; Forest conservation practices; Campaign expenditures, including use of relief funds; Tax-exempt securities; Un-American activities; Civil liberties; Automobile manufacturer-dealer relationships.

Important Measures Discussed But Not Enacted by Congress

- Balanced budget.
- Revision of labor relations act.
- Reorganization of executive departments.
- Regional water use planning authorities.
- Financial aid for railroads.
- Federal licensing of corporations.
- Neutrality act revision.
- War profits taxes.
- Tightening Walsh-Healey government contracts act.
- Chain store tax.
- Bank holding company regulation.
- Government ownership of Reserve banks.
- Creation of federal banks for business credit.
- Construction of superhighways.
- Trust indenture regulation by S E C.
- Revision of trade mark laws.
- Creation of special court of administrative appeals.
- Wool labeling requirements.
- 70-car train length bill.
- Prohibition of block booking of movie films.
- Repeal of long-and-short-haul rail rate clause.
- Divorcement of marketing from rest of oil industry.
- Federal tax on fuel oil.
- Elimination of mineral depletion tax allowance.
- Subsidization and control of strategic minerals.
- Extension of authority of Census Bureau.

tions expected to reach crisis in late fall. If by that time general depression is getting worse and farm unrest increasing, new session will be inevitable. Roosevelt probably would issue call and announce program before election, with Congress reconvening immediately after. Thus President could again use emergency to push through sweeping reforms. *If New Deal loses heavily in election the "lame duck" Congress would carry on, if the contrary, there would be a new "mandate" to speed things.*

Wage-Hour law scope will depend on court interpretations of what industries are in commerce, since act takes effect on all in 120 days with no power of administrative application. Nothing like N R A code authorities is expected, since industry committees have no power over maximum hours or child labor, and power to vary minimum wages is effective only after second year and then only within limits of 30 and 40 cents per hour. Fights will be on classification of industries and occupations; size, geographical and inter-industry differentials; and effort of government and labor to boost minimum wage to 40 cents faster than the law requires. Effective date of wage-hour law is politically fortuitous, more by accident than design. Effective three months from now it will cheer millions of workers just before election, while adverse effects on industry will not be generally recognized until after. Perfect timing.

Food and drug law revision, ending five-year fight, is thorough and drastic but a workable compromise, giving consumers much new protection without imposing impossible restriction on industry as a whole though many trade practices must be changed and smaller concerns may suffer. Except for a few sections new law does not take effect for one year; meanwhile Department of Agriculture will hold series of hearings on new regulations and standards with full advance information to the trade.

Flood control act which gives Federal Government authority to condemn any lands it wants for flood projects may be contested in courts by objecting states or property owners. Act is further step in extending Federal authority in realms formerly reserved to states, but failed to embody President's desire for authority to couple power projects with flood control without specific Congressional approval.

Bankruptcy act revision, culminating six years of study and the first general revision in 40 years, will speed up procedure, eliminate abuses, and give more protection to creditors. New Deal emergency amendments are rewritten into permanent law. Famous Sec. 77B becomes Chapter X, and S E C is given authority to advise courts on corporate reorganization plans.

Educational orders for munitions and war-time supplies for Army are authorized—$2,000,000 per year for five years, with first year's funds already available—inaugurate preparedness plan long sought by War Department and should mean profitable business for toolmakers and firms getting the experimental orders.

Motor carrier act amendments remove some restrictions on truckers, but generally make the law more flexible and give I C C greater authority to make its control effective. Truck lines feel new law will go far to eliminate "chiselers" from their ranks and help stabilize the industry.

Rail labor unemployment insurance bill lobbied through Congress at last minute puts such workers in favored class and opens way for ultimate break-down of state unemployment insurance systems. They get much higher jobless benefits than states provide for other workers, financed by employers and government without employee contributions which most of the state systems now require.

Over-the-counter security market regulation, accomplished by passage of Maloney bill, further extends S E C control over investment field but in novel manner as brokers and dealers are given chance at self-regulation with S E C confined chiefly to general supervision. Sort of a "little N R A" idea which may—possibly—be extended to other industries certain New Dealers would like to regulate.

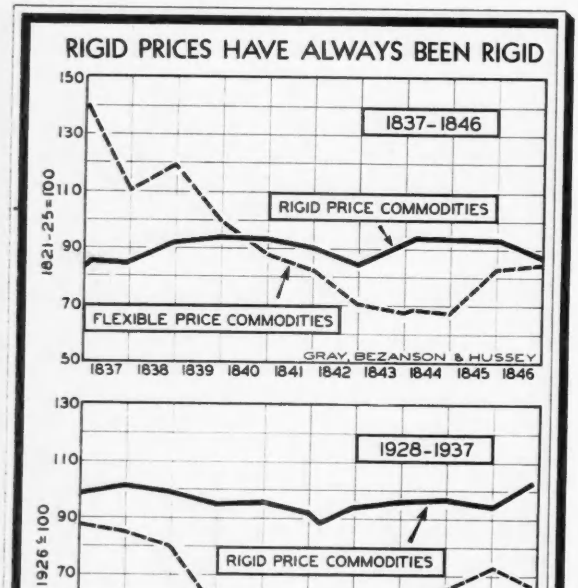
Dominant Corporations and "Administered" Prices are the targets for increasing political attack. If Big Business is broken up, how will the investors fare?

The Coming War on "Monopoly"

BY LAURENCE STERN

IN one guise or another the "monopoly" issue—now increasingly in the limelight—is as old as politics or trade. Over the past forty years especially it has flared to periodic prominence in the newspaper headlines, quieted down, flared up again. It has more lives than a cat. Never to this day have the American people or their Government come to any definite conclusion as to just exactly what this alleged evil is, what its actual proportions are or what precisely should be done about it.

The New Dealers are not so naive as to view monopoly in the strict dictionary definition of the term. When they speak of monopoly they are not talking about exclusive ownership of sources of supply or absolute dictation of price or complete absence of competition.



What they are chiefly attacking is the concentration of economic supremacy in the hands of a relatively limited number of great corporations—Big Business—and the alleged effects of that concentration upon the workings of our economic system and the welfare of our people. They concede the non-controversial fact that there are advantages in corporate bigness, notably efficient, low-cost production of goods and services. The debate centers on the alleged evils.

If there is one common theme running through the monopoly issue it is that of "rigid" or "administered" or "monopolistic" prices, as against "sensitive" or "flexible" or "non-monopolistic" prices. To the monopoly hunter a price which declines relatively little in a depression—for example, price of steel—represents the tracks of the beast of monopoly. Where prices are "sticky" —in this view—there must be monopoly somewhere around.

The more intelligent monopoly crusaders do not aim their attack primarily at allegedly exhorbitant profits nor the "gouging" of consumers but at what they assume to be the unstabilizing effects of price rigidities and price disparities upon the functioning of the economic system. They argue that we would not have major and protracted depressions if prices of raw materials, farm products and manufactured goods could be kept in reasonable balance. They propose to lift the sensitive prices, now out of line on the low side, and to lower the rigid prices. It would be a good trick—provided the remedy did not prove to be much worse in disruptive economic consequences than the alleged disease!

In all seriousness one of the more prominent monopoly hunters tells us that price rigidities are a new evil, that they did not exist in the "old economy" before the days of Big Business. There was a time when "prices on the whole went up and down together." There are two things wrong with this statement. First, it is absolutely untrue. Second, assuming that it *was* true, how could it be that we also had deep and protracted depressions before the days of Big Business?

Some weeks ago, building a case for the anti-trust drive, the New Deal circulated a chart—reproduced with this article—showing that the most flexible one-fourth of

all the prices included in the index of the Bureau of Labor Statistics declined 65 per cent from 1926 to 1933, while the most rigid fourth fell only 10 per cent. That is very interesting—but similarly wide price disparities were present in every depression as far back as reliable records go. It was true, for example, in the depression of 1837-1844, as shown by the second chart, comparing trends of flexible and rigid prices, accompanying this article.

Indeed, there is record that as early as 1776 the economist Adam Smith commented on the phenomenon of price disparities as follows: "That the price of linen and woolen cloth is liable neither to such frequent nor to such great variations as the price of corn, every man's experience will inform him." If we had any really good economic history of ancient days, it no doubt would be found that in time of depression from the dawn of barter farmers complained of receiving too little for their grain and paying too much for their farm implements.

As any objective study will prove, the reasons for varying price behavior and the reasons for giant industrial corporations center far more in the economic compulsions inherent in the capitalist system than in human motives.

It is obvious, for example, that, on both the demand side and the supply side, the economic factors determining the price of wheat differ radically from those determining the price of steel. There is no important variation from year to year in the consumption of wheat. The big variation is in supply. The wheat farmer does not cut production promptly as prices fall for several reasons. He cannot exactly plan his crop yield, regardless of acreage planted. He can vary planted acreage only from season to season, not from month to month or week to week. Finally, his cash operating expenses, relative to the value of the product, are low, involving no such immediate outlay for overhead, labor and materials as must be met in manufacture of finished goods.

On the other hand, consumption of steel varies enormously from year to year and from month to month. While it is true that a low price for steel would tend in the long run to stimulate demand, it is equally true that this stimulating tendency is far less pronounced than in the case of necessitous goods—and meanwhile the steel manufacturer is confronted with the practical problem of cutting his output and costs as demand declines or going bankrupt. Relative to the value of his product, cash operating expenses for labor, materials and overhead are high. Operating costs are rigid. The more rigid operating costs, the more rigid prices must be. If the steel manufacturer is to survive, the only major operating adjustment open to him as demand falls is to reduce production drastically and immediately.

To this the monopoly crusader answers that demand for steel would not fall so sharply if prices were cut. Lower price would tend to sustain demand, production and employment. Let the steel manufacturer temporarily forego profit and strive for volume. This sounds plausible, but it rests upon an exaggerated conception of the manufacturer's margin of profit even in boom times and it greatly over-estimates the *near-term* influence of steel prices upon steel *(Please turn to page 364)*

THE MONOPOLY ISSUE IN A NUTSHELL

Recent and pending prosecutions under existing anti-trust laws, as well as present and coming investigations, represent preliminary skirmishes in and preparations for a blanket New Deal attack on alleged monopoly. With the President as commanding general, the main drive will be carried on by the Department of Justice and the Federal Trade Commission, aided by the S E C and the Federal Communications Commissions and any other of the Federal agencies whose services may be required. The spotlight will be held by a super-investigation of the whole question of monopoly, conducted by a committee dominated by the President and made up of Congressmen and administrative officials.

Official suspicion of monopolistic practices centers on industries in which a relatively few large corporations do the bulk of the business and in which pricing policy is charged to be rigid or "administered."

It will be a long war with various fronts and many battles. Under more or less fire on the financial front will be holding companies, interlocking directorates, inter-corporate dividends, investment trusts and the handling of insurance company investment funds. There will be an effort to "streamline" the anti-trust laws, putting burden of proof on defendants rather than prosecuting agency. In short, price rigidity, identical bidding, exercise of "price leadership" or export prices less than domestic prices would be considered prima facie evidence of violation of the law, and defendant corporations would be called on to prove economic and social justification for their practices. Change in the patent law may be considered, doing away with exclusive sale of patent rights and making patents available to any and all potential users on identical royalty basis.

Chief active anti-trust prosecutions at present are against Aluminum Company of America, Ethyl Gasoline Corp., and General Motors, Chrysler and Ford and the finance companies associated with them. Case involving fourteen oil companies was recently settled, defendants accepting fines totalling $400,000. A Wisconsin court now has under advisement sentence of, or new trial for, sixteen oil companies and thirty individuals convicted several months ago.

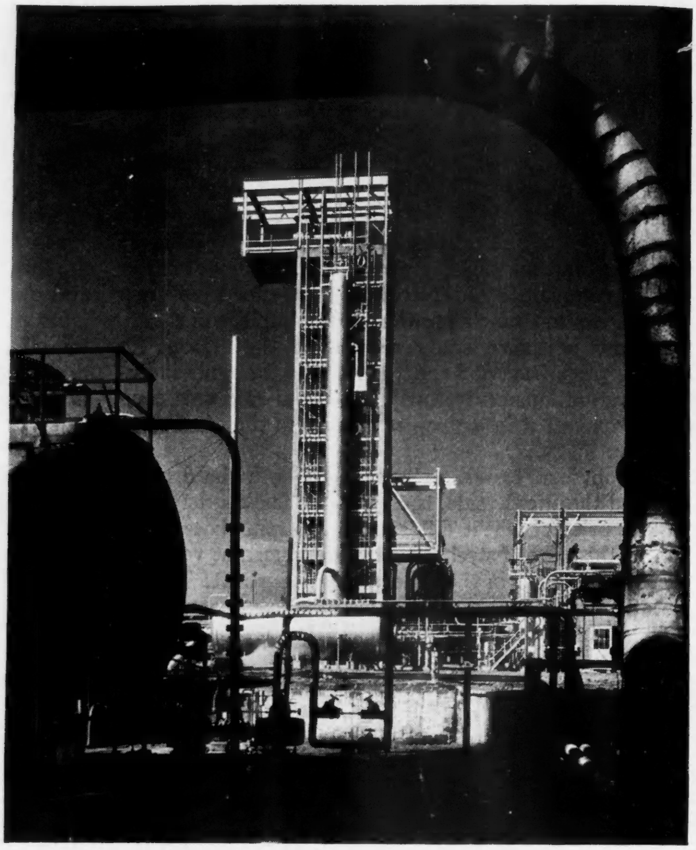
The Federal Trade Commission has a monopoly investigation of the farm equipment industry in progress, part of its report having been issued. Industries which probably will come in for future investigation and attack include steel, the big dairy companies, motion pictures (block booking), cement and building materials, baking and radio broadcasting. This list is not complete. There may be various others, as hundreds of routine monopoly complaints are received by the Department of Justice each year.

Whether and when Big Business will be broken up or "unmerged" are beyond present forecast. It is certainly premature to assume that investors will suffer losses. It is possible even that investors might gain from dissolution of some corporations, as they did in the break up years ago of Standard Oil and American Tobacco. However important, the anti-monopoly drive does not present a logical reason for liquidating stocks now.

Biggest of the Oils

Standard Oil Company (Incorporated in New Jersey)

BY J. C. CLIFFORD



Propane Plant at Bayway, New Jersey.

Few companies are known to a greater number of people, but not one in a hundred gives the Standard Oil Company its correct name. To the majority it is still the Standard Oil Co. of New Jersey—something it has ceased to be for more than forty years. This may be the result of long-lived fame, or some would claim notoriety, but it is possibly an indication of how little the average American knows about one of his country's greatest enterprises.

To the company itself, to be miscalled is merely a mild annoyance. It has something of the feelings of a patriarch and there is a subtle conveyance of the true situation in the magnificently simple: "Standard Oil Company." It is willing to add in small type, of course, "Incorporated in New Jersey," but only for the benefit of persons so ill-informed as to be unable to distinguish it from its offspring which call themselves Standard Oil of Something or Other.

Nor is the justification for this attitude lacking. In 1911 and 1912 the company was trust-busted into a score of pieces. Among the more important today are the Standard Oils of California, of Kansas, (Indiana), (Nebraska), Socony-Vacuum, Atlantic Refining, Continental Oil and Cheesebrough Manufacturing. No question of it, the old Standard Oil Company would have been quite a company had it been permitted to remain intact. As it is, considering how it was thrust out into a cold world, dismembered, with an unbalanced business and under compulsion to compete with what for a time were virtually parts of itself, it has done very nicely and no one can reasonably object if there is a certain satisfaction, not appreciated by everyone, in a correct name.

Yet, although the Standard Oil Co. is not today what it might have been had there been no Roosevelt 1, it is nevertheless a very formidable enterprise. It is an enterprise with total resources in excess of two billions of dollars: an enterprise of which one may say without exaggeration that it has a finger in every oil pie in the world with the possible exception of Russia's.

On the other hand, though the company be a giant among companies, its position is that of a very big frog living in an enormous pool of water. In respect to its share of the industry, it is in no way comparable with General Motors, Ford and Chrysler, for example. It does no such proportion of the total business in its field as is done by United States Steel or Bethlehem Steel in their's: nor is it in any way to oil what American Can and Continental Can are to containers. This is an important point now that the Administration is preparing an intensive drive on "monopoly" and has given unmistakable signs that it feels that even bigness as such is objectionable. Moreover, the Standard Oil Co., having been trust-busted once, is understandably sensitive to political moves of this kind and it is just as well for all concerned that the situation be made abundantly clear.

Specifically, subsidiaries of the Standard Oil Co. produced slightly more than 6 per cent of the crude oil pro-

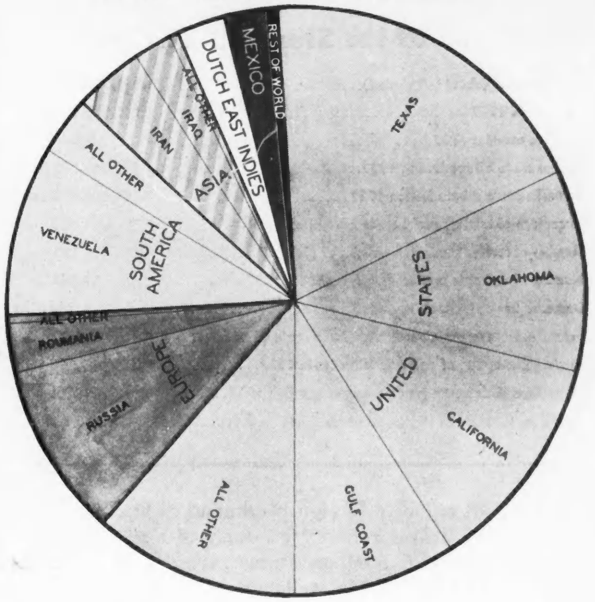
duced in the United States last year. They were responsible for 12 per cent of the refining operations but, because of a large export business in finished products, they supplied only 8½ per cent of the American demand for gasoline.

That Standard Oil's subsidiaries do such a relatively small percentage of the American petroleum business is significant when considering the possible menace of an anti-trust drive, but it should be realized that the Standard Oil Co. is just about as interested in foreign operations as it is in those carried on in this country. It would be a mistake therefore to view the company solely against a background of conditions here.

Some idea of the stake that this company has abroad may be obtained from the fact that nearly 50 per cent of the organization's consolidated assets represent assets of subsidiaries in foreign countries. Last year foreign crude production of 156,000,000 barrels was nearly double the 81,000,000 barrels which were produced by domestic subsidiaries and affiliates. Some consideration, of course, should be given to the fact that there was a tendency to operate foreign wells at their economic capacities, while domestic wells were stifled by proration but, even so, it indicates the great importance of foreign production. Abroad, the Standard Oil Co. attains its greatest production in Venezuela: Columbia and Peru with about equal outputs are very poor seconds, while Mexico, Argentine, Roumania and others bring up the rear. Not forgetting, of course, the joint production with Socony-Vacuum in the Far East.

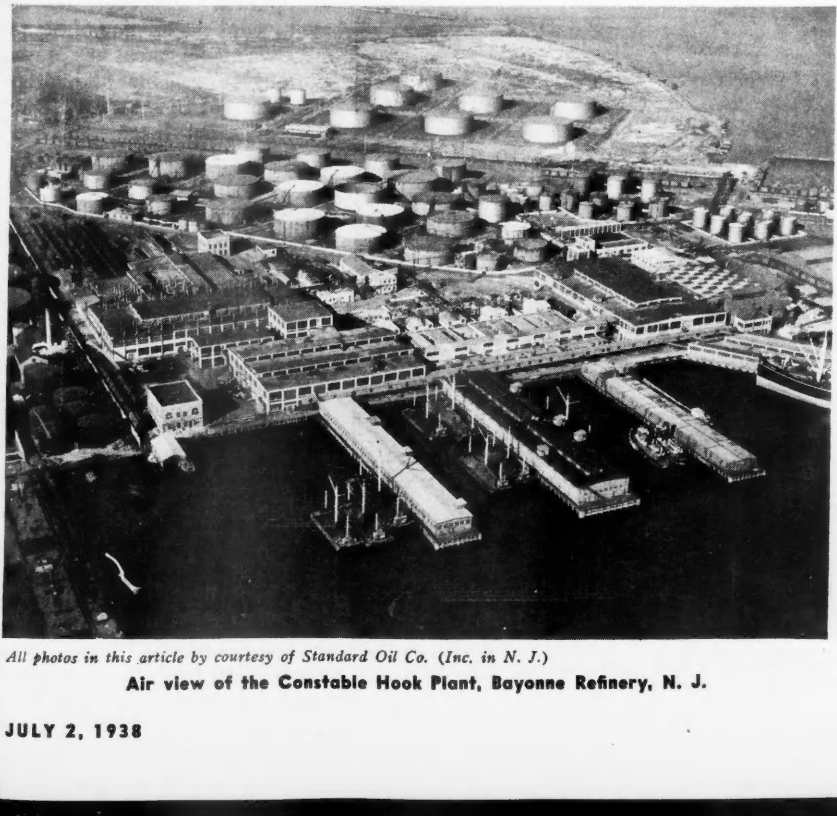
In view of the expropriation on the part of the Mexican Government of American and British oil properties, it will gratify stockholders of Standard Oil to see Mexico in a low position. On the other hand, the trouble in Mexico has been steadily growing worse for a number of years and this country's position as given above hardly represents what it might have been but

World Crude Oil Production



for the adverse developments. Twenty years ago, Mexico was second only to the United States in the production of oil, but has been moving steadily downhill for some years now, owing largely, if not entirely, to the unreasonable demands of labor, backed by the Government and the courts, and the unreasonable demands of the Government itself. So far as the Standard Oil Co. is concerned, its subsidiary, the Huasteca Petroleum Co., is still unable to operate its properties. It continues, however, to seek legal redress, but there is no clear indication of the outcome. Should the final result prove adverse, or should the present situation prove to be merely an unpleasant interlude, Standard Oil's stockholders need fear in no way for the stability of their company.

The greater part of Standard Oil's foreign crude production finds its way to the refineries which the company also operates abroad. Last year the foreign refineries ran 158,000,000 barrels of crude, or an amount closely approximating foreign production. However, this is not to say that the foreign refineries ran almost exclusively on crude, company-produced abroad, for there is a good deal of buying and selling and substituting in the business. Considerable quantities of Venezuelan and Columbian oil, for example, are refined by Standard in this country and the finished products re-exported. Nevertheless, it is interesting to note that Standard Oil's foreign refinery capac-



All photos in this article by courtesy of Standard Oil Co. (Inc. in N. J.)

Air view of the Constable Hook Plant, Bayonne Refinery, N. J.

Highlights of the Standard Oil Company

Total resources (about half abroad)	$2,061,000,000
Net income 1937	147,000,000
Per-share earnings 1937	$5.64
Foreign crude oil production 1937	156,000,000 barrels
Domestic crude oil production 1937	81,000,000 barrels
Percentage of total domestic crude production 1937	6%
Number of foreign producing wells as of 12.31.37	527
Number of domestic producing wells as of 12.31.37	10,448
Domestic trunk pipelines	5,200 miles
Percentage of the world's total tanker tonnage operated	14%
Crude consumption of domestic refineries in 1937	145,000,000 barrels
Percentage of domestic gasoline market supplied 1937	8½%
Crude consumption of foreign refineries	158,000,000 barrel

ity is about equal to foreign producing capacity, while in the United States refinery capacity is not so far from double what the company was permitted to produce from its own domestic wells during 1937.

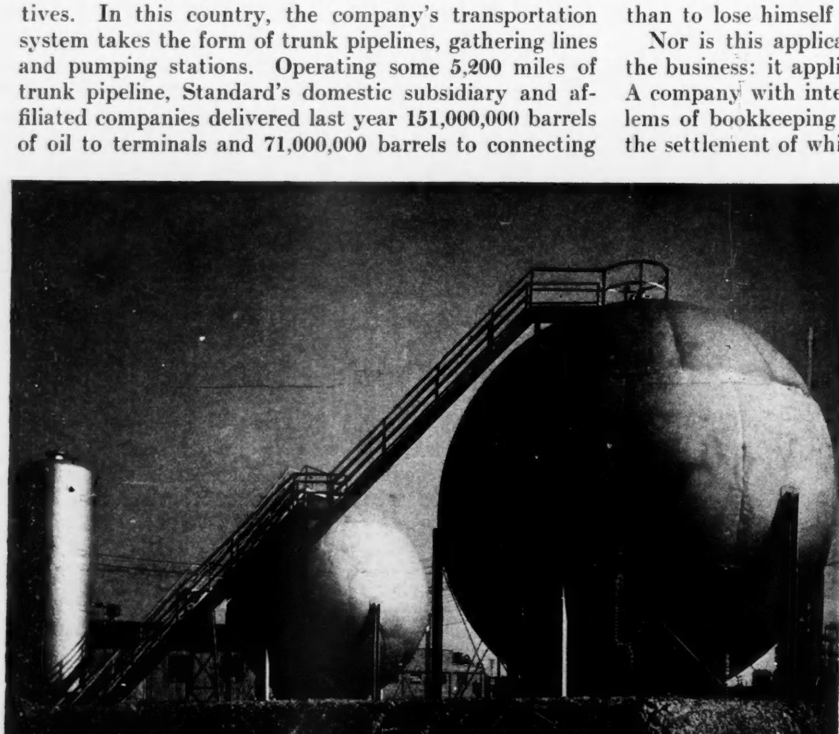
From what has been said already of operations abroad, it would follow almost as a matter of course that Standard Oil has its own transportation system. At the end of last year its tanker fleet aggregated more than 2,100,000 dead-weight tons, or about 14 per cent of the world's tanker tonnage. During last year the fleet moved a total of 273,800,000 barrels of crude oil or its derivatives. In this country, the company's transportation system takes the form of trunk pipelines, gathering lines and pumping stations. Operating some 5,200 miles of trunk pipeline, Standard's domestic subsidiary and affiliated companies delivered last year 151,000,000 barrels of oil to terminals and 71,000,000 barrels to connecting carriers. Having produced, transported, refined and retransported the finished products—the latter for the most part being gasoline, kerosene, fuel and lubricating oils—these are sold partly at wholesale and partly through service stations which were once the company's own but which have now been leased to private operators or otherwise disposed of.

There are naturally side lines to a business as large as this. The Standard Oil Co., for example, finds it advantageous to distribute tires, batteries and other automobile equipment through its gasoline retailing system. It produces and transports a great deal of natural gas, some of the subsidiaries in this field having a business on the order of a public utility. It is even possible that the parent is subject to the provisions of the Public Utility Holding Company Act of 1935, although it has asked the SEC for exemption from the terms of this law. Other subsidiaries manufacture oil storage equipment and oil burners. Yet, others make insecticides of which "Flit" probably is the best known. All in all the Standard Oil Co. has some 275 subsidiaries and sub-subsidiaries.

Although the foregoing is a far from complete picture, it does give some idea of what the stockholder in the Standard Oil Co. owns. One could go on indefinitely describing the company's activities, but in this case, great detail, or even a normally praiseworthy attempt to be meticulously accurate about such things as production figures, lead to complexities which will obscure rather than clarify. It is much better for a layman interested in Standard Oil to grasp the general outline than to lose himself in a corporate maze.

Nor is this applicable only to the physical details of the business: it applies with equal force to the financial. A company with interests as farspread as this has problems of bookkeeping and problems of foreign exchange, the settlement of which in many cases is solely a matter of opinion. However, by the past record the opinion of Standard Oil's management has proved thoroughly reliable and, while the figure of $147,993,147.48 reported as net income for 1937 may not be an absolute one, undoubtedly it represents a very fair appraisal of the year's operations. On a per share basis the net income was $5.64, whereas for 1936 only $3.73 was shown.

If anything, these earnings may be understated, for the Standard Oil Co. knows that the life of an oil well is as uncertain as the present-day Chinaman's, that refinery equipment becomes obsolescent fast and that the trend toward nationalism throughout the world injects the factor of political uncertainty into its business. These are all valid reasons for setting up heavy depreciation, depletion and amortization reserves, for setting up reserves for foreign



These queer looking tanks are Wortonspheres in which "high test gas" is kept under pressure at the Bayway Refinery.

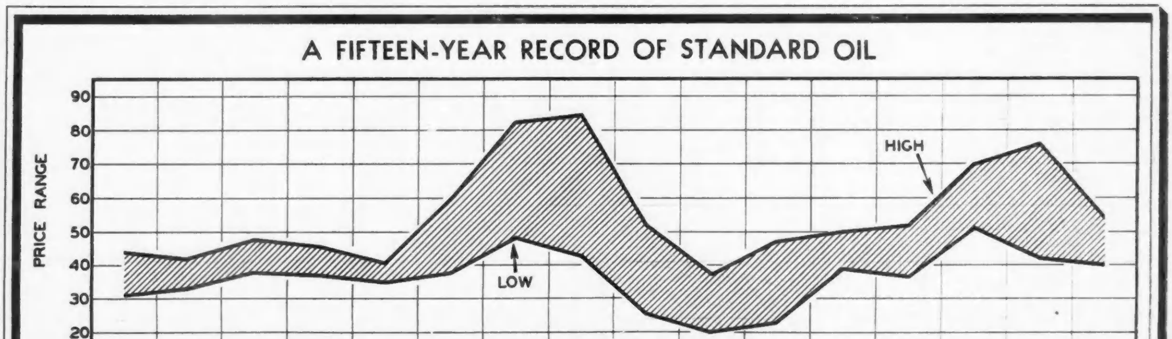
exchange and for generally stating income in a cautious manner. At the end of last year the net book value of lands, leases, plant and equipment, ships and miscellaneous property was only 41 per cent of the gross value, 59 per cent having been charged off. In addition, patents, copyrights, goodwill and organization expenses with a gross book value of $43,700,000 have been written down to $29,600,000.

Considerable interest currently rests on the capitalization of the Standard Oil Co. because of the registration with the S E C of $50,000,000 of fifteen-year debenture $2\frac{3}{4}$s and $35,000,000 in serial notes. If one excepts the $100,000,000 in debenture $3\frac{1}{4}$s recently sold by the United States Steel Corp. this will be the largest piece of corporate financing in a long time. At present the consolidated capital liabilities of the Standard Oil Co. consist of 26,224,767 shares of common stock with a par value of $25 and about $139,000,000 in long term debt, of which $85,000,000 in parent company debentures is the most important single item. There are also outstanding in the hands of the public certain preferred and common stocks of subsidiary companies: the book value of these at the end of last year was about $252,000,000.

Esso is delivered by the newest type of motor pumping tank trucks.

In connection with the purposes for which the money to be raised by the new financing will be used the company states: "No specific allocation of net proceeds to be derived from the sale of the securities covered in this registration statement has been, or can be, made. The net proceeds will be placed in the general funds of the company and used for general corporate purposes, consisting largely in making available to subsidiaries additional money needed in acquiring and developing crude reserves, improving and extending refining capacity, replacing less efficient and older types of tankers with larger, speedier and more up-to-date vessels, financing inventories and receivables, and for such other purposes as the board of directors may determine to be in the interest of the company."

At the annual meeting held last month, Standard Oil's president said that capital expenditures this year would be more than $150,000,000, compared with $176,000,000 last year. He also said at another time: "We are not long on cash." Com- (*Please turn to page 366*)



Crowding the Short Side

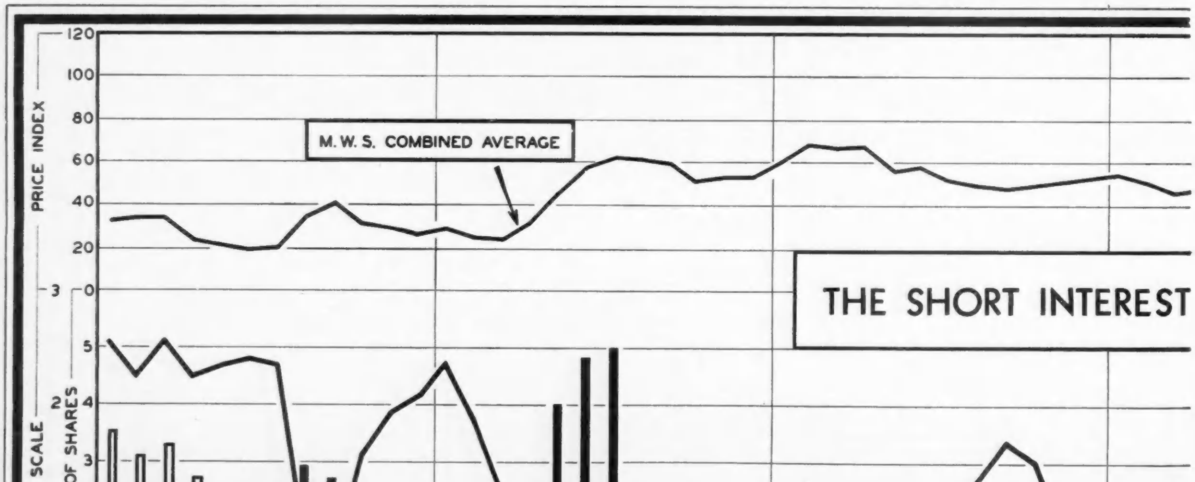
The Record Since 1932 Shows the Bears Usually Canny, But Present Circumstances Suggest Their Side May Be Over-Crowded

BY CYRUS G. V. WHITE

DISCUSSIONS of the short interest during recent months have been almost unanimous in referring to it as "large" or "crowded," and have pointed out that its size is likely to result sooner or later in a rush to cover. Yet the figures themselves show that in May the total short position in New York Stock Exchange securities amounted to only 1,344,000 shares, compared to 5,590,000 shares in the same month seven years earlier. A considerable amount of interpretation is evidently necessary before the deduction can be reconciled with the statistics.

The outstanding contrast between the market in May, 1931, and the market in May, 1938, is in the volume of transactions. About 47,000,000 shares changed hands in the earlier month, against 14,000,000 shares in the recent one. This is a significant factor in judging the short interest, since activity is a rough measure of public participation, and the amount of short-selling would be expected to vary with countrywide interest in the stock market. Volume of trading, therefore, is the additional factor shown on the chart below and used to bring the picture of the short position into better focus.

The ratio between the short position at month-ends and the average daily volume of transactions on the N. Y. S. E. during the month has of course varied widely. The lower continuous line on the chart shows this ratio ranging as low as one-fifth and as high as two and one-half or more. These figures actually represent the number of days of average volume during which the shorts would have had to be the buyers in every transaction recorded before their positions would have



been fully covered. At the end of last May, for instance, it would have taken about two and one-third days of trading to even up the short position provided no other buyers entered the market. The ratio is so sensitive to fluctuations in volume that it must be used cautiously in drawing conclusions, but it makes obvious the point that in relation to market activity the shorts are more numerous than at any time for five years back.

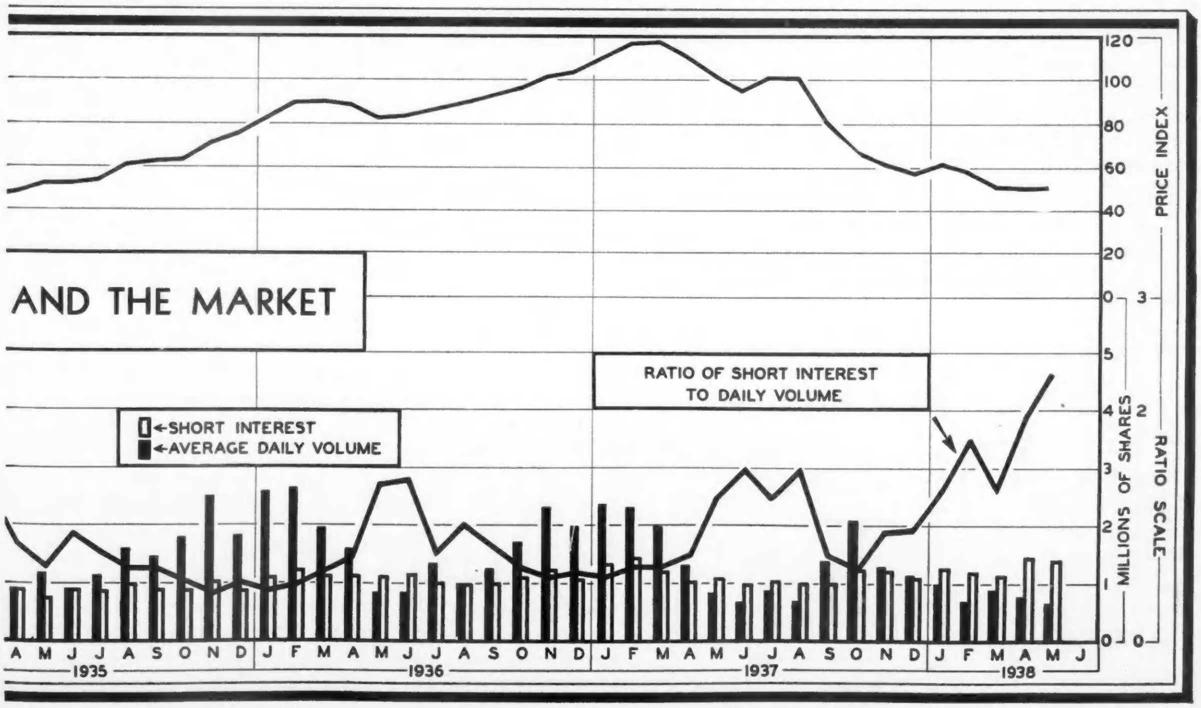
Shorts and the Floating Supply

Another method of measuring the relative size of the short position produces somewhat different results. By applying the quarterly figures on the floating supply of U. S. Steel common to the total number of listed common shares, the theoretical floating supply of all common stocks may be approximated. Then, using the short interest as a percentage of the floating supply, it may be judged whether or not the bear position is large in relation to the current speculative position in stocks as indicated by the amount listed in brokers' names. During early 1933 this figure stood at about 1 per cent, then fell by the end of the year well below half that mark, and has since held at a low level. In relation to theoretical floating supply, however, the short position has risen since last fall to around the highest level attained in four and a half years.

A few minutes' study of the chart will show that a growing short position has not usually preceded a rally in the market. On the contrary, the shorts have been right more often than wrong over the last few years. This would have more or less pessimistic implications for the immediate future in view of the growing short position, except that each of the former periods of increased short-selling has occurred in the midst of an uptrend in the market, and has more or less successfully indicated a topping out phase to come. The amount of short-selling in odd-lots has increased greatly this spring, and not all of the increase can be laid to the trading rule which up to a short time ago encouraged the breaking up of round-lots for this purpose. There is at least a suspicion that the publicity given to the whole question of short-selling and the profits to be made on that side of the market has created a new class of amateur bears who anticipate a long downswing such as that of 1930-32. The more expert type of selling naturally comes somewhere near a top in the market and is more to be respected and feared for that reason.

Students of seasonal action will be interested to note the covering going on in December of each year except 1932, and the new short lines being put out in January of the following years. Frequently a man who has hedged certain market or business commitments will lift the hedges at the end of the year and replace them during the following month. Tax considerations also induce short covering in December, but this is quite likely to be offset by tax selling at the same time.

The conclusion that the short side is crowded as of the date of writing seems to be supported by the figures available. On the other hand, it must be remembered that the requirement of a 50 per cent margin on all sales of this type has kept shoe-string selling out of the market. Where formerly a round lot of a stock could be sold short at 100 on a margin of as low as $1,000, the minimum is now five times that amount; more cash is required today to sell it than to buy it. Although the running to cover may occur, and in fact started on June 20, the position is not likely to be liquidated as early in the course of a rise as before the new margin rule went into effect. The fact that the shorts are well-margined, however, will not prevent them from exercising a considerable effect on present thin markets when they finally realize that they are on the more dangerous and less profitable side for the time being.



Tobacco Stocks for Investment

Snuff Companies Offer Most Conservative Medium

BY STANLEY DEVLIN

THE tobacco industry embraces three major manufacturing industries, each of which are important in its own right. Each of these divisions has definite characteristics of its own; each is dominated by several large corporate units; and all of them come under the broad classification of consumers' goods industries. They are the cigarette manufacturers, snuff manufacturers and cigar manufacturers.

Of these the cigarette division alone has been favored by a steadily rising trend of consumption over a long period of years. In the decade from 1920 to 1929 consumption of cigarettes increased on the average of nearly 12 per cent annually. Although the rate of increase has slowed up perceptibly in recent years, consumption last year was just about double that in 1925. Although this period was marked by aggressive advertising campaigns on the part of leading cigarette manufacturers, the greatest impetus to consumption was imparted by the addition of millions of women to the ranks of cigarette smokers.

Favored by this factor of rising consumption, ranking cigarette manufacturers have shown exceptionally good earning power in both good times and bad. Last year earnings of the three leading cigarette manufacturers were only slightly more than 10 per cent under the level of 1929, and few companies can boast a more liberal or longer standing dividend record.

In marked contrast to that shown by cigarettes, the trend of cigar consumption declined without interrupion from 1920 to 1930 inclusive. Between 1929 and 1934, consumption dropped more than a third. Since 1933, cigar consumption has gained moderately, apparently in response to more vigorous advertising methods and the rising trend of purchasing power in these years. Earnings of leading cigar manufacturers have been highly erratic and such improvement as has been shown in recent years has fallen almost entirely to the lot of the companies specializing in five-cent brands, while the higher priced brands have continued to lose ground.

The chief characteristic of the snuff division of the tobacco industry is the marked stability of consumption. In 1916, the annual consumption of snuff amounted to 34,400,000 pounds. Consumption last year was just under 38,000,000 pounds, which compared with the 1928 peak of 40,656,000 pounds. Earnings of the three leading snuff companies have been both stable and substantial. Unlike either the cigarette or cigar companies, snuff manufacturers are not compelled to spend huge sums annually in advertising and sales promotion. Snuff companies are aware that their products would have little or no appeal in many sections of the country and there would be little sense to any of them to embark on a national advertising campaign. Brand preferences are firmly established in major consuming areas and the need for large annual outlays for competitive defense is obviated. Consumer preferences for cigars and cigarettes on the other hand are constantly shifting and manufacturers are virtually compelled to safeguard their competitive prestige, chiefly through the use of every major advertising medium.

From an investment viewpoint and based on these major characteristics of the three principal manufacturing divisions of the tobacco industry, one might well conclude that any choice would favor the shares of the cigarette companies both for current income and moderate price appreciation; the shares of the snuff companies for income alone; while the shares of cigar companies, with maybe one or two exceptions, would appear to offer scant investment appeal and only slightly better speculative possibilities. As generalities, these conclusions might well prove correct. However, there are several exceptions and qualifications which are worthy of note.

In a period replete with increasing business activity and rising security prices, tobacco shares are all but neglected entirely by investors and speculators alike—and for obvious reasons. Their speculative possibilities are circumscribed by a scarcity of either capital or industrial leverage and while earnings may rise, accom-

Sales of Cigarettes in Billions

	Camel	Chesterfield	Lucky Strike	All Other Brands	Grand Total Cigarettes
1929	40 Billion	26 Billion	36 Billion	17 Billion	119 Billion
1930	38 "	25 "	43 "	14 "	120 "
1931	33 "	25 "	45 "	11 "	114 "
1932	25 "	21 "	37 "	21 "	104 "
1933	26 "	29 "	38 "	19 "	112 "
1934	32 "	33 "	34 "	27 "	126 "
1935	37 "	36 "	33 "	29 "	135 "
1936	43 "	38 "	37 "	36 "	154 "
1937	45 "	38 "	38 "	42 "	163 "

Media Records, Inc.

panied by increased dividends, tobacco shares admittedly lack the market lustre of the more volatile groups such as steel, chemicals, building and automobile. However, the very conditions which tend to deprive tobacco shares of bull market appeal redound to their favor when business is depressed and earnings prospects are uncertain—as they are now. The shares of leading cigarette and snuff companies offer a comparatively safe haven when the investment emphasis is of necessity placed on the factors of income and *current* earning power. Static earnings then become stable earnings.

A timely combination of exceptionally favorable conditions permit the leading cigarette companies to view a general business depression with comparative equanimity. Cigarette consumption does not vary drastically during times of bad business. Such problems as overproduction and foreign competition are virtually unheard of in the domestic cigarette industry. Meanwhile, competition between the leading manufacturers, as well as the smaller units, is sufficiently active to remove any thought of monopoly and prices are restrained within reasonable limits.

Gendreau

Harvesting Tobacco in the Connecticut Valley

Exclusive of state and local taxes, the five largest selling brands of cigarettes are priced to retail at from 13 to 15 cents per packet of twenty. The first serious challenge to the competitive prestige of these brands developed in 1932, when a number of 10-cent brands were placed on the market by some of the smaller companies. With public purchasing power drastically reduced in that year, these cheaper brands in a short space of time scored sensational sales gains. At the peak of their popularity it was estimated (*Please turn to page* 368)

Leading Tobacco Companies

Cigarette Manufacturers

Company	Earned per Share 1937	Earned per Share 1936	Rrice Range 1937 High	1937 Low	1938 High	1938 Low	Recent Price	Div.	COMMENT
R. J. Reynolds "B"	2.82	2.93	58	40¼	46½	33¾	39	2.40	Company's Camel brand leads all other brands. Current earnings lower but decline not likely to be serious.
American Tobacco "B"	5.04	3.71	99⅞	58¾	77⅞	58¾	77	5.00	Sales of Lucky Strikes are recovering rapidly. Current earnings should gain. Dividends reasonably secure.
P. Lorillard	0.85	1.51	28⅝	15⅜	18	13¾	16	1.20	Without the benefit of heavy promotional outlays, sales of Old Gold have dropped off sharply.
Liggett & Myers "B"	6.35	7.25	114	83½	102½	81½	99	4.00(e)	Company's Chesterfield brand battling for second place. Earnings should hold close to recent levels.
Philip Morris	(a) 10.91	(b) 6.88	95½	65	96	75¼	95	3.00(e)	Earnings at record levels owing to strong competitive advances. Shares invite investment consideration.

Cigar Manufacturers

Company	Earned per Share 1937	Earned per Share 1936	1937 High	1937 Low	1938 High	1938 Low	Recent Price	Div.	COMMENT
Bayuk Cigars	2.17	2.09	20¼	9¼	12¾	9	12	0.75	A leading manufacturer of 5-cent cigars. Current earnings compare favorably with last year.
Consolidated Cigar	0.93	0.54	18⅞	4¾	8	4¼	7	0.75	Earnings prospect uncertain. Finances strong but shares speculative.
Deisel-Wemmer-Gilbert	2.45	2.81	29	8	15½	9	11	0.80	Earned 14 cents a share in first quarter vs. 36 cents a year ago. Near term outlook unpromising.
General Cigar	2.80	3.07	52¼	22	28	20⅞	24	2.00	1st quarter earnings equal to 29 cents a share, comparing with 37 cents a year ago. A ranking maker of 5-cent cigars.

Snuff Manufacturers

Company	Earned per Share 1937	Earned per Share 1936	1937 High	1937 Low	1938 High	1938 Low	Recent Price	Div.	COMMENT
American Snuff	3.13	3.32	67½	46	53	45¾	53	3.00(e)	Earnings likely to hold up. Modestly capitalized. Shares have investment merit.
G. W. Helme	6.00	6.82	126	86	94	80½	90	5.00(e)	Strong financial position and stable earnings place shares in attractive investment position.
U. S. Tobacco	7.21*	8.89*	....	....	36†	29½†	36†	1.25(e)	Flood losses cut 1937 earnings. Outlook favors some improvement this year.

(a)—Year ended Mar. 31, 1938. (b)—Year ended Mar. 31, 1937. *—On shares outstanding prior to 4-for-1 split-up 3 1 38. †—New stock.
(e)—Plus extras.

The Investment Clinic

Discussing:—Don't Worry Stocks
Next Upswing Stocks

CONDUCTED BY J. S. WILLIAMS

Two Broad Classes of Stocks

The point has been frequently made in these pages that the perfect list of securities for one owner is unlikely to suit exactly the requirements of any other person in a slightly different situation. Even when bonds and preferred stocks, to say nothing of other forms of investment, are omitted from consideration, the choice in common stocks can never be decided by hard and fast rules which stipulate that such a type of investor should hold such and such stocks, and no others. But still confining ourselves to common stocks, there is a definite division into two classes—call them conservative and speculative, or defensive and aggressive, or as we sometimes think of them—"Don't Worry Stocks" and "Next Upswing Stocks."

Under the first heading would come such issues as American Snuff Co., with a dividend record stretching unbroken back to 1903, American Chicle and its consistent earnings record, Coca-Cola showing impressive and practically continuous growth. Eastman Kodak, too, has added to a good depression record the evidence of great recuperative powers and an excellent future for its products. Holders of Beech-Nut Packing and Sterling Products and Diamond Match have had very few anxious moments over the last few years which have contained so many uncertainties.

Issues of this type are not likely to produce spectacular profits, but they are most comforting at times when everything else seems to go wrong. They are the best class of collateral if cash is needed unexpectedly, and they are not subject to the dips which can cause so much worry even when later recovery proves it to have been unnecessary. Every investor should cultivate familiarity with these issues and with the advantages they possess over the more volatile type.

It is possible, too, to go into the opposite class, the "Next Upswing Group," without speculating in situations where bankruptcy is the alternative to an early recovery. Many companies with strong balance sheets, able managements and favorable trade positions happen to be engaged in industries which always fluctuate between relatively wide extremes of boom and slump. Settings like the present offer opportunities to speculate intelligently and with all the odds in one's favor on the eventual return of palmier days for these sound companies.

Eminently of this class are such enterprises as U. S. Rubber, International Nickel and Caterpillar Tractor. Their common stocks are not in every case the sole capitalization, but the moderate leverage thus created is not offset to any important degree by the danger of being unable to pull through a lean period. One indispensable characteristic of this type of issue is that it be certain to profit fully by recovery in its own individual industry; the only element lacking for prosperity must be increased activity in its line.

Others of the same type, prospective leaders in the cyclical swing and in some cases favored by the probability of continued secular growth, are Allis Chalmers, U. S. Steel, Westinghouse Electric, U. S. Gypsum, N. Y. Airbrake (on the theory that even under possible Government ownership the rails would be forced to buy equipment), Union Carbide, Ingersoll Rand, Anaconda and Food Machinery. Although the dozen issues selected do not cover all industries sensitive to the cycle of prosperity, they constitute a good cross-section of the stocks most favorably situated to gain in the next upswing.

Annual Rate of Sinking Fund Necessary to Write Off an Investment Completely in a Certain Term of Years

Term	Return on sums set aside as sinking fund				
	2%	2½%	3%	4%	5%
10 years........	9.1%	8.9%	8.7%	8.3%	8.0%
15 "	5.8	5.6	5.4	5.0	4.6
20 "	4.1	3.9	3.7	3.4	3.0
25 "	3.1	2.9	2.7	2.4	2.1

A Sinking Fund for Stocks

An investor who purchases a bond at a premium understands that the true yield to maturity is less than

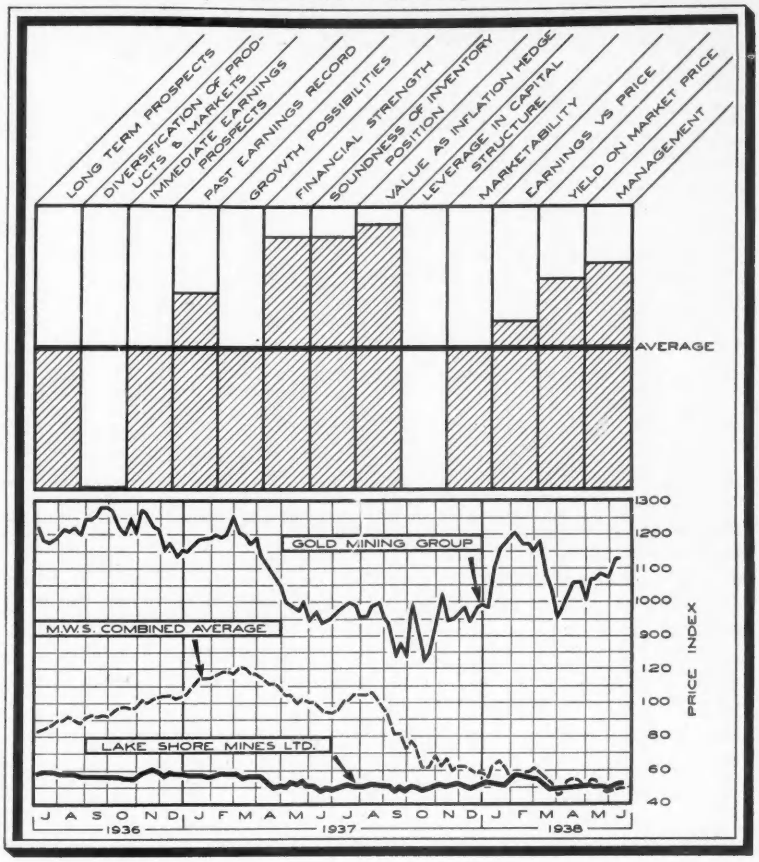
the current yield, by an amount sufficient to write the cost of the bond down to par by the time of maturity. Regardless of whether or not the owner actually sets aside the excess of income over the true yield, he is aware that part of his receipts should be so handled, and in the cases where strict accountings must be made—institutions, trusts, estates, and so on—the procedure is routine.

When a common stock is purchased, however, since it is apparently a perpetual equity in earning power, there is no attempt to provide for the eventual exhaustion of the earning power. Particularly in the extractive industries, investors will buy stocks which represent underground assets frequently subject to continuous depletion, knowing that the mine has reserves for only fifteen or twenty years, but feeling that the high dividend yield is full compensation.

The table shown in this article should make it easier to judge how large a proportion of dividend return is true income and how much might better be treated as a sinking fund for eventual replacement of the principal. The purchaser of a mining stock may accept estimates of reserves good for twenty years, and may consider a yield of 8% a generous one. He should realize, though, that it would be necessary to invest 3.9% of the purchase price annually drawing interest at 2½% in order to build up a sinking fund equal to the purchase price by the time the mine will supposedly be exhausted. In other words, under such conditions the apparent yield of 8% would be reduced to approximately 4.1%.

Many companies make adequate charges for depletion, informing their stockholders when dividends constitute a return of principal, and most charge development expenses against earnings with the idea of replacing the assets consumed. Nevertheless, even in such cases, it will be illuminating to make the necessary adjustments and then discover the true yield. All that is needed is an estimate of the life of the earning power, one of the available rates for money, and the subtraction from apparent dividend yield of the percentage which should be set aside as a sinking fund.

Applying the Yardstick to Lake Shore Mines, Ltd.



Capitalization	Common stock 2,000,000 shares ($1 par).
Dividends	Total of $6 in 1937 included $2 extra. Regular quarterly dividends of $1 now being paid in Canadian funds, subject to 5% tax deduction at source when paid to American owners.
Latest Earnings	$4.15 in fiscal year ended June 30, 1937. $4.84 in previous year.
Comment	Production in the 1937 fiscal year amounted to 880,000 tons of ore from which bullion worth $15,693,000 was extracted. Production in the six months to December 31, 1937, was up to 558,500 tons, but recovery of metal worth $7,462,000 showed an average of only $16.25 a ton, against $17.90 a ton in the 1937 fiscal year. The grade of ore handled will probably not vary widely from recent levels and earnings have apparently struck a top except for minor improvement from treatment of tailings. Dividend return is therefore likely to be limited to the regular $4 rate, barring a change in the price of gold.

Lake Shore Mines, Ltd.

The output of this company during the fiscal year ended June 30, 1937, consisted of 447,492 ounces of gold and 109,996 ounces of silver. Thus the largest Canadian gold producer, Lake Shore has built up a record of consistently profitable operations, and its orebodies at Kirkland Lake, Ontario, have gained a reputation for consistency.

The last balance sheet showed current assets of over $9,000,000 as compared with current liabilities of $2,100,000, cash and bullion alone amounting to $8,589,000. Mining properties have been written down to $1, while buildings, structures and equipment are carried at $764,000 after depreciation reserves of $5,796,000.

As one of the more stable gold stocks (the low market price for the last five years has been 41½), Lake Shore adds to its dependability as an income producer the quality of a hedge against further devaluation of the dollar or other forms of inflation. Except for such possibilities, the issue holds out less than average inducement to buy it for capital appreciation.

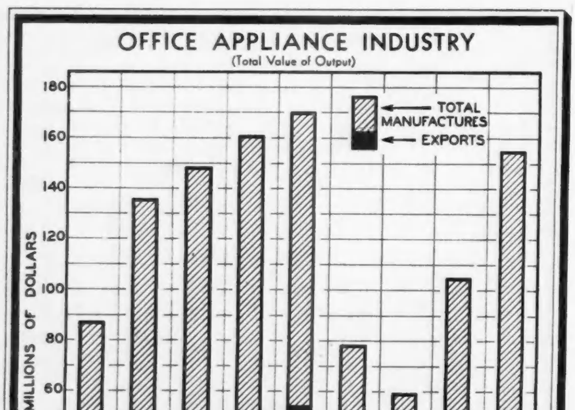
Business Equipments Show Mixed Trends

Export Demand Plus New Domestic Needs for Record Keeping and Labor Saving Help Sustain Volume

BY P. L. STRYKER

THE office equipment industry enjoyed a record-breaking year in 1937. Yet, while this is a perfectly true statement and conforms to the custom of referring to the industry as if it were a compact unit on the order of the packing or the rubber companies, it is in reality anything but uniform. Office equipment covers an amazing variety of products and although the state of business in general is the most important single factor in the prosperity of all the companies comprising the industry, it does not prevent there being at one time a wide variation in the current activity and prospects of the different companies.

That differences within the industry do exist is brought out forcefully in the latest release issued by the Department of Labor on employment and payrolls. The Department reports the index of employment for May, 1938, in cash registers, adding machines and calculating machines as being only 7 per cent under May of last year: payrolls, however, were down 22 per cent. On the other hand, employment in typewriters in May, this year, was 31 per cent under last, while typewriter payrolls declined 50 per cent. The slump in typewriter manufacturing during May corresponds fairly closely with the slump in all durable goods, employment in which declined 32 per cent and payrolls 43 per cent.



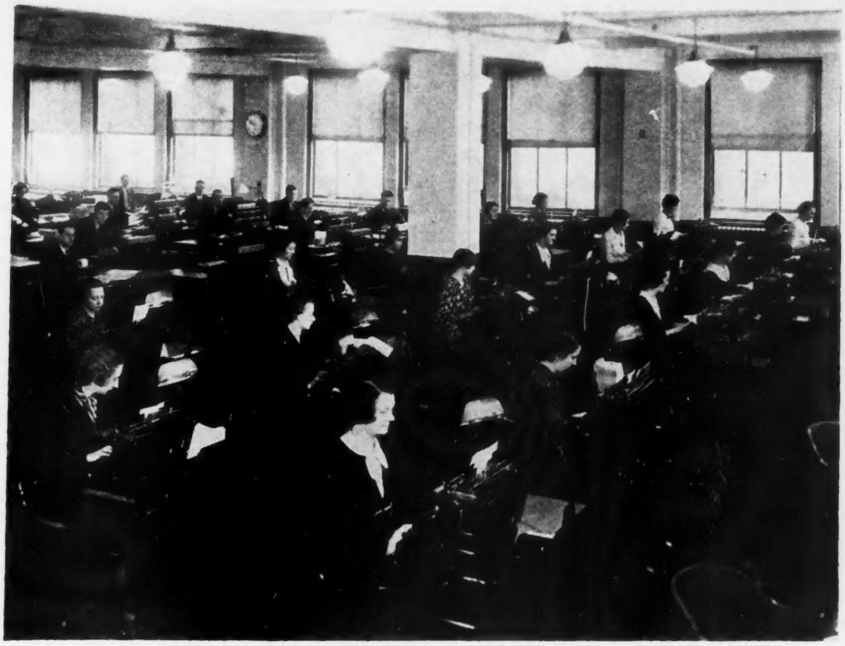
While other considerations will be found to modify the conclusion to some extent, these employment and payrolls figures may be translated to the effect that National Cash Register, Burroughs Adding Machine and International Business Machines are doing better than Royal Typewriter and Underwood-Elliott-Fisher. The business of National Cash Register primarily follows the company's name, although it has an accounting machine division. Bookkeeping and accounting machines of various kinds are just as important to Burroughs as the business for which it is named, while it is active to a lesser extent in typewriters and cash registers. International Business Machines makes recording, tabulating and sorting machines, without which, for example, it would be virtually impossible to "keep track" of the Social Security beneficiaries. Royal Typewriter is completely self-explanatory and Underwood-Elliott-Fisher is generally considered to derive the greater part of its revenue from typewriters too, although the company is active also in the accounting and adding machine field.

Remington Rand, which is one of the most important factors in the business equipment industry, has not been included in the above classification for the reason that the company's business is not easily divisible. It comes closer than any of the other companies to blanketing the whole field. In addition to typewriters, it makes Bureau, Rand and Kardex filing and indexing equipment and cabinets. Accounting and adding machines, loose-leaf binders and office furniture are made too.

Another important unit in the industry is Addressograph-Multigraph Corp., but it is not clear whether the Government for employment and payroll statistics classifies it under the cash register, calculating machine division or under typewriters. The company makes

printing, duplicating and addressing machines which are in almost universal use for handling mass office routine. Normally, about half the business is in new equipment and half in supplies and parts. Addressograph-Multigraph's profits registered steady improvement with the betterment registered by general business between 1934 and 1937.

There is quite a little information from the companies concerned which serves to confirm the Department of Labor's indexes. National Cash Register reported earnings on the common equivalent to 37 cents a share for the first quarter of this year, against 50 cents a share for the first quarter of 1937—a reasonably good showing under the circumstances. International Business Machines for the March quarter, 1938, reported the equivalent of $2.55 a share of common, compared with $2.40 a share on the same number of shares for the corresponding previous period. Then, turning to the two companies which have been doing less well according to the Department of Labor's figures, we find that Underwood-Elliott-Fisher earned only 76 cents a share of common in the first quarter of this year, against $1.92 in the first quarter of last, while Royal Typewriter's earnings for the same two periods were 70 cents and $3.89 a share of common, respectively. Burroughs Adding Machine publishes no quarterly reports. Remington Rand's earnings in the first quarter of this year were equivalent to 30 cents a share of common, against 98 cents a share in the March quarter, 1937. Over the same two periods Addressograph-Multigraph reported 41 cents and 67 cents a share, respectively.



Courtesy Underwood-Elliott-Fisher

The modern business office uses many different kinds of business machinery and equipment.

It is interesting to compare market action with this show of earning power. The stock of International Business Machines, as might have been expected, has declined least—indeed, on the basis of profits per-share it might have been expected to rise. However, the decline in the general market has evidently made this impossible and the stock today is selling for about $147 a share, against a high last year of $189. Three companies, National Cash Register at $19 a share, Royal Typewriter at $41 and Remington Rand at $13, are selling today at prices between 40 and 60 per cent under their highs of last year. Addressograph-Multigraph at $20 is about 44 per cent under the high of last year. It would seem from the results of the first quarter that National Cash Register should be commanding a price more nearly approaching the $39 a share at which it sold in 1937. On the other hand, Underwood-Elliott-Fisher currently selling at $51 a share, against a 1937-high of 100, seems to be doing unusually well marketwise in comparison with its latest earnings. These discrepancies, however, probably are not of major significance, for there must inevitably be relatively greater esteem for one company on account of its record, its management, or merely because of the stockholders' whim.

Before passing from the matter of recent earnings to the question of future prospects for the manufacturers of office equipment, it would seem well to provide an explanation as to why International Business Machines stands out as such an exception. Here is a company which apparently has suffered in no way from the development of the current depression. This is a plain contradiction of the statement which has been made to the effect that the state of general business is the most important single factor in the prosperity of all these companies. The explanation is to be found in the fact that, although International Business Machines makes outright sales of certain things such as cards and other supplies, it rents the machines which it manufactures. This makes for an unusual stability of earnings, for the lessee of a machine who will cut down on his purchases of other office equipment is not inclined to revise his whole organization and get rid of International Business Machines' product just because there is somewhat less recording and tabulating to do.

Continuing to regard International Business Machines as a major exception, it must be admitted that the near-term outlook for makers of office equipment is not a particularly bright one. A smaller volume of orders taken for steel, automobiles and every other manufacture means inevitably less recording, less bookkeeping, less billing and a reduced volume of correspondence. Moreover, even should those who believe that business in general is to stage a material improvement this autumn prove to be right, it is to be remembered that the buying of office equipment is only done *after* the improvement has materialized.

Nevertheless, if the makers (*Please turn to page 367*)

For Profit and Income

Helped by Building

With residential construction providing one of the bright spots in the business prospect for the balance of the year, interest is reviving in those companies which make household effects and accessories. There are no concrete signs of improvement as yet, of course, at least so far as the makers of floor coverings are concerned. Armstrong Cork omitted the dividend usually payable June 1 and it is likely that the company hardly broke even in the first half. Congoleum-Nairn reported early last month that its business was substantially below that of 1937 and that there was no definite sign of improvement over the near future. However, a profit was made in each of the first five months of 1938. In June Mohawk Carpet passed the dividend on the common, while Bigelow-Sanford Carpet had already taken similar action. Both the carpet companies have had to contend with labor troubles.

This may seem a somewhat dark picture, but it is to be remembered that it reflects water that is already over the dam. Stocks of floor coverings are not believed to be excessive in the light of any business improvement at all and the worst of inventory adjustments on account of lower prices has almost certainly been made. Hence, with only small encouragement from new construction and improved purchasing power on the part of the general public, the makers of floor coverings might well stage an exceptionally fast recovery.

Courtesy Caterpillar Tractor Co.

Price cuts announced the other day by the Caterpillar Tractor Co., may be the forerunner of general reductions in the machinery field.

Which Way Prices?

Coinciding with the rise in the security markets, the price for many important raw materials has tended very definitely towards higher levels. Strangely, however, in finished and durable goods the tendency is towards weakness. The Caterpillar Tractor Co., for example, maker of crawler-type tractors and diesel engines, cut the price of its products the other day between 7½% and 23%. This followed special bonuses granted by certain makers of farm equipment which has the effect of price reductions. Then there is the reduction in certain steel prices and the revelation that discussions were in progress between the C. I. O. and certain steel leaders with a view to wage reductions in order that prices might be lowered and greater volume obtained.

In the face of this there is considerable speculation on whether automobile prices can be maintained at current levels. So far, they remain quite firm on the surface, but a recent dispatch from Cleveland reported a sharp reduction in the price of certain automotive parts. It is to be doubted that there will be a general revision of automobile prices on current models for the season is

practically over. It appears much less certain, however, that there will be no price reductions on next year's offerings.

The question of greatest interest to the stockholder concerned is the matter of earning power in the event that automobile prices *should* be reduced. Nothing definite can be said, of course, but the past record is reassuring. The automobile companies lack nothing of ingenuity and while they may possibly have to take part of the reduced selling price out of the car, it will not be taken out where the public is apt to notice it. So long as they can attain volume, precedent strongly indicates that they will make money and that profit margins can be left to themselves.

Business Ahead of 1937

For the majority of companies it has been deep, dark depression: for a smaller number it has been merely a recession: but for a few it has meant nothing worse than a continuance of the upward trend in sales and earnings. Among the fortunate few one finds the Scott Paper Co. Earnings in the three months ended April 4, this year, after all deductions, were equivalent to 62 cents a share on the common stock, compared with 45 cents a share in the corresponding previous period. Shipments in the first five months of 1938 were almost 17% ahead of the first five months of 1937. The company's paper making capacity was increased last year by 16% and a further increase is planned for this year. It is hardly surprising in the light of these conditions that the company's stock is selling close to the year's high of $42 a share. Even at this figure the issue will attract those who desire a moderate growth factor coupled with considerable assurance of a reasonable return on the capital invested. In 1937 the Scott Paper Co. paid dividends totalling $1.70 a share on the common stock.

Rail Equipments

Interest in the railroad equipment stocks was stimulated by the proposal which Senator Shipstead of Minnesota submitted to Secretary Ickes. The Senator would have the Government place orders for 300,000 cars immediately and then sell them to the railroads on an installment-payment basis. It is contended that at least this number of cars are obsolete, that they cost a great deal to maintain and occupy miles of track that might well be used to better advantage.

On the theory that there cannot be any real prosperity for the steel industry without buying on the part of the railroads, those contemplating acquiring an interest in steel might consider some of the railroad equipment stocks as being relatively cheaper.

Developments in Companies Recently Discussed

Baltimore & Ohio . . . Has sold the Chesapeake & Ohio Canal to the Public Works Administration for approximately $2,000,000. This sum, which played a major part in enabling the road to meet its July 1 interest payments, will be credited against the B. & O.'s borrowing from the R. F. C.

Plymouth Oil . . . Reported net income of $1,160,742, after depreciation, depletion and taxes, for the five months to May 31, last. This was equivalent to $1.14 a share of common stock and compared with $1.05 a share in the corresponding previous period.

Paramount Pictures . . . At the annual meeting held towards the end of June the president of this company stated that he expected that the consolidated figures for the first six months of the present year would show some profit for the common stock. He went on to say that all possible economies were being effected.

Kennecott Copper . . . Earnings for the first half of 1938 are officially estimated at slightly more than 50 cents a share of common stock. For the corresponding previous period the company reported the equivalent of $2.47 a share.

Curtiss-Wright . . . Announces that it is developing a new transport plane to carry 30 passengers. It will be for sub-stratosphere operations.

Wesson Oil & Snowdrift . . . Reported a net profit of $2,446,631 for the nine months to May 31, last. This, after dividend requirements on the preferred, was equal to $2.71 a share on the outstanding common and compared with $4.84 a share on the common for the corresponding previous period.

Hudson & Manhattan . . . This company has petitioned the I. C. C. for permission to raise the fare between New York and Jersey City from 6 cents to 10 cents. Hearings on the matter have now been closed and a decision on the part of the I. C. C. is expected shortly.

Kroger Grocery & Baking . . . This company's baking division is benefiting from the favorable factors currently affecting the baking companies proper. Price declines in flour, sugar and other raw materials have tended to widen profit margins and more than offset any loss of sales' volume. Unfortunately, in the case of Kroger, adverse developments in chain store operations are believed to have prevented any improvement in consolidated earnings.

General Foods . . . It was on May 4 that this company offered 150,000 shares of $4.50 preferred at 101. Listed on the New York Stock Exchange June 23 the first transaction took place at 109. This is certainly one piece of new financing that was eminently successful.

Sears, Roebuck . . . In the four weeks to June 18 sales were nearly 19 per cent below those of the corresponding previous period. For the twenty weeks to June 19 the decline was 11.4 per cent. Helped by the comparatively well sustained income of farmers and the promised recovery in general business, it is thought that this and other retailers will do better in the fall.

Appraising Low Price Stocks

Time for Housecleaning in Which Weak Issues Are Abandoned for Those with Promising Possibilities

BY EDWIN A. BARNES

Low price stocks have always been favorite speculative vehicles and increasing public interest in this group invariably follows in the wake of a prolonged decline in the market, such as has occurred during the past ten months. Many issues which had previously sold at substantially higher levels are now selling in the low price bracket.

It is, or should be, common knowledge that market valuation alone, whether it is high or low, is not a reliable indicator of investment character. It is no exaggeration, however, that in a complete list of stocks traded on the N. Y. Stock Exchange, and selling between $10 and $20, the majority of these issues will be found to be highly speculative, many of them with little tangible merit to recommend them, aside from the fact that they may be acquired with only a comparatively small outlay of capital. It is true that in a broad and active bull market some of these so-called "cats and dogs" will be carried along. But for every one that thus turns out profitably, a score of others will be duds.

In the present setting, however, the choice of low price issues has been appreciably enlarged to include a representative group for which it is possible to concede definite promise. Among these are the shares of well-seasoned companies of recognized industrial prestige, companies which under normal conditions have had a good record of profitable operations to their credit and which are possessed of sufficient financial resources to see them safely through the current period of restricted operations and earnings. A considered choice of such issues may well prove a highly profitable investment undertaking, over the next twelve months.

In favor of low price stocks at this time, it may be set forth as a general possibility that they will be less vulnerable to recurring sinking spells in the market which may mark the general trend over the next several months. Also, and from a speculative standpoint, low price issues of course have the advantage of giving the purchaser a greater number of share units and a potentially greater percentage of price appreciation.

Probably every investor at this time is holding at least several low price issues, either from choice or as a result of the drop in common stock prices. The recent upturn in the general market has doubtless strengthened his determination to hold such issues for further recovery. While such course has much to recommend it when applied to the more promising of low price issues, little or no advantage may be gained by continuing to hold low price issues of questionable merit. Such issues should be switched and consolidated into the more attractive low price stocks. This is a time for housecleaning your list and rebuilding soundly.

A list of attractive low price stocks accompanies this discussion. It affords the investor a wide range of choice. Several of the issues comprising this list have been arbitrarily singled out for more detailed analysis.

Ex-Cell-O Corp., Aided by Broader Diversification

Although engaged primarily in the manufacture of small precision tools, such as diamond drills, cutting, grinding and other devices, activities of Ex-Cell-O Corp. have undergone considerable diversification in recent years and included among the products of the company are aircraft tools and engine parts, Diesel engine fuel pump parts, standardized car and locomotive pins and bushings—more recently the company has developed a machine which forms, sterilizes, fills, seals and dates single-service containers for milk and other dairy products. The effects of this broader diversification of outlets were noted last year and the company reported that the automobile industry contributed 22 per cent of total sales, as compared with 31 per cent in 1936. Last year foreign business increased 12 per cent from 6 per cent of the total in the previous year, while railroads and railroad supply firms took 6 per cent against 4 per cent in 1936. Earnings during the past several years have risen steadily and last year net of $655,618 was equivalent to $1.69 per share on the 386,845 shares of stock, comprising the company's entire capitalization. The showing last year compares with 1936 when net profit of $413,214 was equal to $1.08 a share. Contrary to the experience of most machinery and machine tool companies, Ex-Cell-O Corp.'s earnings in the initial

quarter of the current year were moderately better than a year ago. In this most recent period net of $132,063 was equal to 33 cents a share on the stock, comparing with 28 cents a share in the first quarter of 1937. While it is doubtful that the same rate of gain will be shown in subsequent quarters, it appears certain that the company's showing this year, all things considered, will be quite favorable. The aircraft industry may quite possibly take up most of the slack in the demand from the company's other sales outlets. Moreover, the company's new milk container would appear to be a product which should lend itself to rather promising development.

Dividends thus far this year have totaled 30 cents, the latest quarterly payment having been made at the rate of 10 cents a share.

Although not large, the company is modestly capitalized, adequately financed and with a demonstrated record of earnings to its credit. On this basis, the shares, recently quoted around 14, afford an attractive medium as a substitute for less favorably situated issues.

Attractive Low Price Shares

	1937		1938		Recent
	High	Low	High	Low	Price
International Tel. & Tel.	15⅞	4	10	5½	10
Barnsdall Oil	35¼	10	16⅜	10⅛	15
Consolidated Aircraft	33¾	8	19½	11	16
General Baking	19½	5	9	6½	8½
Curtiss-Wright "A"	23¾	8⅛	21½	12⅝	20
National Acme	24	8	13⅛	8⅛	10½
Chicago Pneumatic Tool	33	6¾	13¾	6⅞	13¾
Glenn L. Martin	29¼	10	24¾	14⅛	24
Lone Star Gas	14¼	5¼	9¼	6⅝	8
Technicolor	34	14	24½	14¼	23
American Chain & Cable	33¾	11¼	17⅝	9½	14
Sperry Corp.	23¾	10	22½	15⅝	22
American Rolling Mill	45¼	51½	22⅞	13⅛	18
Crane Co	56½	22½	30	19	29
American Radiator & St. San	29½	9¼	14¼	9	13
Deere	27	19½	25¼	13¾	22
National Lead	44	18	29¾	17⅛	24
Twentieth Century-Fox	40⅞	18½	24	16⅛	24
Plymouth Oil	29⅞	13	20⅝	15	19
Square D	48⅜	16	22	12½	22
Ex-Cell-O	27⅝	7	14¾	8	14
Cluett, Peabody	29⅞	13¼	17⅜	10½	17
Radio Corp.	12¾	4¾	7¼	4¾	6
Ruberoid	38	17¼	23¾	13	21
Union Bag & Paper	18⅜	8⅞	21⅝	7⅝	11
Superheater	61¾	18	29¾	17⅛	25
Flintkote	46¼	11½	18¾	10⅞	17
Republic Steel	47¼	12¼	20¾	11¼	18

Plymouth Oil, Earnings Ahead of Last Year

Thus far in the current year, earnings of Plymouth Oil Co. have been running ahead of 1937. This is in contrast with the showing made by a number of other oil units, which overshadow Plymouth in size.

In the first three months, the company reported a profit of $702,892, as compared with $640,320 in the corresponding months of 1937, and for the five months ended May 31, last, net income totaled $1,160,742, as against $1,101,085 in the first five months of last year. Based on 1,018,400 shares of capital stock outstanding, earnings in the most recent five-month period were equal to $1.14 a share, as against $1.05 a share in the comparable period of 1937.

The major portion of the company's earnings is derived from the production of crude oil. In the circumstances, earnings are naturally sensitive to any changes in the price structure of crude oil. Earlier this year, record-breaking stocks of gasoline constituted a serious threat to crude prices, a condition which doubtless contributed to the comparatively low price-earnings ratio of the shares of Plymouth Oil. Recently, however, the statistical position of the oil industry has undergone significant improvement. Substantial curtailment in crude oil production and refinery runs has brought about a better balance between supply and consumption and stocks of gasoline have declined nearly 10,000,000 barrels from the peak of late spring.

Last year, drilling operations of Plymouth Oil were highly successful, with the result that despite restrictions the company's output scored a gain of 28 per cent over 1936, which had in turn been 44 per cent higher than in 1935. On the basis of the earnings showing thus far this year, it would appear that the uptrend in production has been maintained.

The company has an unbroken dividend record dating back to 1925 and currently payments are being made at the rate of 35 cents quarterly. Current earnings afford adequate support to this rate and might conceivably justify a year-end extra. Last year the company paid an extra of 25 cents. Recently quoted around 20, the shares afford a generous yield of about 7 per cent, and further strengthening in the position of the oil industry as a whole would doubtless be accompanied by rising quotations for this issue.

Deere & Co., a Leading Manufacturer of Farm Equipment

Deere & Co. is the foremost manufacturer of steel plows, and the second largest manufacturer of tractors and other types of farm machinery and equipment. It is, therefore, rather obvious that the company's activities and earnings are closely geared to the fortunes of agriculture. Responding to the substantial upturn in the farmer's purchasing power during the past several years, sales in 1936 increased 40 per cent and net income rose to $11,601,306, as compared with $6,105,452. Last year, with farm income higher by about $600,000,000, sales of Deere & Co. again increased 40 per cent to a level slightly in excess of $100,000,000. Net income of nearly $15,000,000 last year was better than 28 per cent above

1936 and only slightly under the peak profit of $15,181,-949 scored in 1929. This year, of course, farm income has declined, owing principally to lower prices for the major farm crops. However, augmented by various government subsidies, it is not believed that total farm income this year will be much more than 15 per cent under the 1937 level. Actually, it would appear that the farmer's current purchasing power is probably somewhat better than that indicated by the trend of farm income. During the past several years, the farmer has been able to effect substantial liquidation in his mortgage and other indebtedness, with the result that a much smaller proportion of his income is now required to meet interest and amortization payments.

Giving effect to a 200 per cent stock dividend last year, Deere currently has 3,004,362 shares of common stock outstanding, preceded by 1,543,000 shares (par $20) of 7 per cent preferred stock. For the fiscal period ended October 31, last, net income of $14,936,746 was equal to $4.25 a share, as compared with $3.14 a share in the preceding fiscal period. At the end of last year, the company reported current assets, including $4,481,-599 in cash, of $83,958,522, and current liabilities were slightly in excess of $21,000,000. Bank loans totaled $7,850,000, apparently necessitated by an increase of 32 per cent in inventories and a 27 per cent increase in receivables. Last year an inventory reserve of $8,138,-316, or 25 per cent, was set aside for inventory fluctuations, while a reserve of $13,539,181, or nearly 20 per cent, of receivables was also provided. These reserves are in conformance with the conservative accounting policies regularly followed by leading manufacturers of farm equipment.

Last year the company cleared up the dividend arrearage on its preferred stock and resumed dividends to common shareholders, with the payment of $1 in September and a further payment of $1 on October 20. With such a large proportion of earnings represented by receivables, however, the company is naturally somewhat restricted in its dividend policies, a condition which last year levied a toll of nearly $2,000,000 against earnings in the form of Federal surplus profits taxes. No dividends have been declared on the common stock this year.

Recently quoted around 22, the shares of Deere & Co. would appear to have adequately discounted such decline in current sales and earnings as appears likely to materialize this year. Therefore, and unless later developments are of a nature to more seriously impair farm income, the shares would seem to offer a promising speculative opportunity.

Crane Co., a Stake in Heavy Industry

The shares of Crane Co. offer a stake in a group of basic "heavy" industries. The company is an old-established manufacturer of valves, fittings, pumps and a complete line of plumbing fixtures, appliances, cast iron boilers and radiators. Distribution is on an international scale and important manufacturing subsidiaries maintain their plants in Canada and England. The company obviously is closely identified with the building industry but other important sales outlets are afforded by the public utility, petroleum, railroad and shipbuilding industries.

The widely varying fortunes of these latter industries have been reflected in the earnings of Crane Co. Losses aggregating about $17,400,000 were reported in the three years ended with 1933. Since the latter year, sales and earnings have risen substantially and last year sales of $98,543,000 were up 26 per cent from the 1936 level. Net profit last year totaled $9,765,126 which, after allowance for preferred dividend requirements, was equivalent to $3.63 a share on 2,348,628 shares of common stock. For 1936 the equivalent of $2.04 a share of common stock was reported. In addition to the common stock, the company's capital liabilities consist of 192,803 shares of 5 per cent convertible preferred stock and funded debt, consisting chiefly of 3½ per cent debentures, at the end of last year totalled $11,427,000. Out of earnings last year, the company distributed $1 a share to common shareholders and paid an undistributed profits tax of $353,000.

It is a foregone conclusion that current operations, conforming to the status of business generally, have been sharply restricted and the probabilities are that a loss will be shown for the first six months. The company has been somewhat handicapped by rigid manufacturing costs, while, on the other hand, prices have been lowered, in some instances, 15 to 20 per cent. The third quarter, however, promises to produce some improvement. Building activity and engineering construction has held up surprisingly well this year, a condition which should shortly be reflected in the company's sales volume, as dealers' inventories are depleted. A strong capital leverage factor provides the common with an interesting speculative feature and with any reasonably sustained turn for the better in the company's sales and earnings, substantially higher levels for the shares are likely to be witnessed.

New Fields Will Aid Cluett, Peabody

Cluett, Peabody & Co. is chiefly identified with the well-known "Arrow" brand of collars, shirts and neckwear. In recent years, however, the company has opened up for itself important new avenues of revenue through the development of its "Sanforizing" process for pre-shrinking fabrics. The process is applicable to all kinds of cotton and linen goods. It is understood that the process is employed by sixty-three of the largest American cotton mills, producing more than 60 per cent of the nation's cotton goods output. A basic royalty of one-quarter cent a yard is paid to Cluett, Peabody for all goods sanforized. Notwithstanding the success which has met the company's efforts to develop this process, the opportunities for continued expansion in its use are excellent.

For all of 1937, Cluett, Peabody reported a net profit of $728,241, as compared with $1,279,000 in the preceding year. The fact that earnings declined, despite an increase of more than $3,000,000 in sales and a substantially larger amount of yardage employing the sanforizing process, was largely due to the inventory losses resulting from the substantial decline in cotton prices in the last half of the year. A marked decline in textile sales and activity was also an adverse factor.

Based on 677,844 shares of common stock outstanding at the end of 1937, earnings (*Please turn to page* 366)

Answers to Inquiries

The Personal Service Department of THE MAGAZINE OF WALL STREET will answer by mail or telegram, a reasonable number of inquiries on any listed securities in which you may be interested or on the standing and reliability of your broker. This service in conjunction with your subscription should represent thousands of dollars in value to you. It is subject only to the following conditions:

1. Give all necessary facts, but be brief.
2. Confine your requests to *three listed securities*.
3. No inquiry will be answered which does not enclose *stamped, self-addressed envelope*.
4. If not now a paid subscriber use coupon elsewhere in this issue and send check at same time you transmit your inquiry.

Special rates upon request for those requiring additional service.

Guaranty Trust Co.

As a new subscriber may I have your advice on Guaranty Trust Co. I have 24 shares which cost me an average of 310, and am partially dependent on them for income. Should I hold them further?—T. L. K., Rochester, N. Y.

It is, of course, possible that some modification of the annual dividend rate paid by Guaranty Trust will take place but, frankly, we believe that disbursements will continue at rates which have prevailed during the past. Currently the majority of net income of the company is realized from investments, although 85% of these are in United States issues which were held at the close of 1937 and mature within five years and only furnish the company with a modest yield. Of course, in a market such as has prevailed so far in 1938, a cautious investment policy is indicated rather than one of attempting to gain profits which may be turned over to per share earnings. Over the near term, deposits should continue satisfactory and additional investment funds will be made available by the reduction in reserve requirements. However, it is anticipated that these funds will be invested in a very conservative fashion. In view of this, we do not anticipate any sharp upturn from the $15.18 per share earned in 1937. On the other hand, earnings should be ample enough to justify a disbursement of $12 per share on the capital stock of the company. On the whole and in view of your heavy loss, we are inclined to suggest full retention of your holdings with the expectation that over the longer term you will still be able to realize your original investment and in the meantime enjoy the satisfactory yield afforded by the stock.

S. R. Dresser Mfg. Co.

I understand S. R. Dresser Mfg. Co. has virtual monopolies in certain oil fields equipment. I have 100 shares each of the "A" and "B" stocks. What are their prospects?—D. B. A., Denver, Colo.

The future of S. R. Dresser Mfg. Co. is not only tied up with the oil industry, but depends greatly upon the future developments in the public utility industry. The company produces a complete line of couplings, clamps, sleeves and fittings and other standard accessories for the construction and operation of pipe lines of every description and service. A substantial amount of the company's sales is taken by utilities. Therefore, the decline in demand from the utilities has had an adverse effect upon the profits of the concern. The longer term outlook is further clouded by the increasing use of welded pipe rather than the couplers which represent a large part of the production. However, this might be offset somewhat by the growth currently taking place in the heating and air-conditioning division. Earnings of the company have, nevertheless, felt the effects of the business recession which has been in progress for some time. This is made obvious when we see that for the twelve months ended March 31, 1938, earnings were $3 per share and $1.29 per share on the class A and B stocks, respectively. This compares with earnings of $3.21 per class A and $1.71 per class B share sustained during the initial quarter of 1937. The company is rather simply capitalized, having as of March 31, 1938, only 83,000 shares of class A and 100,000 shares of class B stock outstanding. Furthermore, a strong financial position is maintained, total current assets comparing with total current liabilities in the ratio of approximately 3 to 1. The recent statement by the president of the company, however, has hinted at new financing in order to obtain new capital to expand the company's operations. It is our belief, however, that financing will await better market conditions. The relatively

When *Quick* Service Is Required, Send Us a Telegram Prepaid and Instruct Us to Answer Collect.

favorable position of the oil industry naturally lends an optimistic note to future operations. It is highly improbable, however, that there will be as much pipe line construction during 1938 as there was during 1937. This will probably lead to a decline in profits for the full year of 1938. Under these circumstances, we are inclined to believe that dividends on the class B stock are rather remote. The class A, on the other hand, should remain a relatively satisfactory income producer. In any case, the shares at present depressed levels offer interesting speculative possibilities, and on that basis we are inclined to suggest continued retention of your holdings for the longer term.

Mathieson Alkali Works, Inc.

The chemical industry seems to have much to recommend it. Would you advise my buying 200 shares of Mathieson Alkali, at the present market, strictly for investment?—D B. C., St. Joseph, Mo.

The greatest appeal to the shares of Mathieson Alkali Works lies in the company's relatively well sustained earnings. The company has never reported a deficit and has never failed to make a payment on the common issue since its inception. During 1937 dividends of $1.65 a share were recorded on the common issue. It is possible, however, that the current rate will be lower. Naturally, the company will feel the effects of the recession due to the fact that its main outlets include the manufacturers of lamps, soaps, chemicals, cleansers, pulp and paper, textile and petroleum products. This premise is proven when we consult the first quarter report. For the quarter ended March 31, 1938 earnings of only 16 cents a share were recorded on the common issue, against 52 cents per common share in the like interval a year earlier. The company, however, is practically free of raw material and labor problems and this should enable relatively satisfactory profits during the remainder of the current term. Capitalization is simple. As of the close of the first quarter there were outstanding only 828,181 shares of common stock, being preceded by only 23,777 shares of 7% cumulative preferred $100 par. There is no funded debt. Profits of $1.81 a share during 1937 were the highest that they have been since 1931. While it would be overly optimistic to anticipate 1938 profits on a par with those of last year, we do believe that unless some unforeseen events take place, they will be relatively satisfactory. All in all, the shares appear worthy of longer term retention.

Inland Steel Co.

I have repeatedly heard that improvement in the steel business appears first in the Chicago district. Does this favor my holdings of Inland Steel bought in 1935 at 72 1/7?—T. J. M., Pittsburgh, Pa.

First quarter earnings of Inland Steel registered a sharp decline from a year earlier level, but were still in the "black." For the quarter ended March 31, 1938, profits on the common issue amounted to 58 cents per share, as compared with $3.34 per share during the like quarter of 1937. This was a better showing than the average company in this industry and is indicative of Inland's ability to operate at low cost and a high degree of efficiency. Some benefits may be attributed also to the low "pay point" of operations. While these factors will continue to work to the advantage of the company, we are still dubious of the company's ability to record profits anywhere near the $8.05 per common share registered during 1937. At present, some hope is entertained for a better demand from the farm implement and household equipment industries. If the seasonal trade from the agricultural region is good and if the building industry receives a new impetus some betterment should prevail in second quarter profits of the company. Nevertheless, the depressed state of the automotive industry continues to cloud the future quite substantially. The company is simply capitalized, having only 1,576,070 shares of no par capital stock outstanding. This has allowed substantial disbursements to the stockholders during the past. Dividends this year, however, will be lower. Given any improvement in business conditions, profits of the company could reverse themselves. It is easy to see that the present depressed price of shares does not fully consider favorable factors present. We are of the opinion that the shares are satisfactory both for income and possible price appreciation.

American Encaustic Tiling Co., Inc.

Do you recommend holding further 125 shares of American Encaustic Tiling which I bought at 7⅜?—J. F. H., Santa Barbara, Calif.

Any merit which may be attached to the shares of American Encaustic Tiling Co. is of definitely long range calibre. Since the present company was organized early in 1936, there has never been any profits shown, nor have any dividends been paid on the capital stock. This rate of operations has continued so far in 1938 and we see that for the quarter ended March 31, a deficit of 7 cents per common share was recorded, against a loss of 10 cents per share in the year earlier quarter. The company, as you know, is engaged in manufacturing wall and floor tile in practically all colors and geometrical designs. Thus, the present depressed state of the building industry will continue to cause the future outlook to remain clouded. On the other hand, if any impetus is received from the attempts of the Government to bolster the construction industry, profits should better accordingly. Nevertheless, we cannot attribute anything to the shares but a highly speculative rating. The company does not enjoy a very substantial financial position, a net working capital of only $26,198 being reported at the year-end. This does not offer much chance for extensive operations nor does it bolster the outlook for future dividend payments. In view of your large loss on the shares, however, we are inclined to suggest continued retention of your holdings with the thought in mind that any general market improvement will see the shares selling at higher levels.

Omnibus Corporation

I have 150 shares of Omnibus Corp. bought at 18¼ in 1936. Should I hold this longer, or switch?—M. H. G., Evanston, Ill.

Omnibus Corp., a holding company, operates, through subsidiaries, extensive motor coach systems in Chicago and New York City. Traffic on the company's lines has increased noticeably over the past few months. This is quite understandable when the recession is taken into consideration. In periods such as this, persons who have previously used more expensive means of transportation turn to buses as a means

of conveyance and as a way to economize. This has led to satisfactory profits last year and indicates well maintained profits for 1938. For the year ended December 31, 1937, profits of $1.74 per common share was reported against a deficit of 9 cents a share during the year 1936. We must bear in mind, however, that higher costs are tending to restrict profits. Over the longer term, however, the company should not encounter any difficulty in maintaining profits at a fairly good level. Another interesting feature concerning Omnibus Corp. to be considered is the benefits that will derive from the traffic resulting from the coming New York World's Fair. This should aid the company directly through the Tri-Borough Bridge route and indirectly on other lines due to the influx of visitors. While it is hard to determine at this writing whether or not the company will decide to maintain the dividend rate of $1.80 which represents the last payment, we are inclined to believe that some payment will be continued. This premise is further strengthened by the well sustained traffic of the company's subsidiaries. In taking the shares of Omnibus Corp. into consideration, it must be remembered that the merits which they possess are definitely of the long term. Where this is realized, we can countenance full retention of your shares on a price appreciation basis.

Tidewater Associated Oil Co.

I am tempted to average down on my 200 shares of Tidewater Associated Oil bought two years ago at 20½. What do you think of the company's position and prospects—and can the stock be bought to advantage at current prices?—C. I. B., Nashua, N. H.

Although we can take an optimistic attitude toward the future prospects of Tidewater Associated Oil Co., we do not believe that you would serve your purpose best by averaging down at current prices. Our reason for this statement is predicated upon the belief that you are already sufficiently committed in the issue and a further commitment might tend to destroy diversification in your account. For the quarter ended March 31, 1938, Tidewater reported earnings of 42 cents per common share or slightly better than the 39 cents per share reported during the initial three months of 1937. These profits enabled maintenance of the regular dividend rate. Naturally, some decline in earnings will result from less favorable refining and marketing conditions which now prevail. On the whole, however, we can look for full 1938 earnings at approximately the same rate as that registered in 1937, when $2.08 a share was shown on the common stock. The company is simply capitalized, having as of March 31, 1938, 500,000 shares of $4.50 no par preferred stock and 6,370,270 shares of $10 par common shares. Preceding this are $38,405,000 of 15-year 3½% debentures. The strong financial position which has been characteristic of the company was in evidence at the year-end, when total current assets compared to total current liabilities at the ratio of approximately 3½ to 1. In view of the present depressed prices for the shares, we can counsel retention of your holdings on a price appreciation basis as well as for the yield afforded. Nevertheless, we believe your representation in this issue is ample and do not counsel further commitments.

May Department Stores

Would you advocate adding to my holdings of May Department Stores at current market prices?—J. H. K., Bryn Mawr, Pa.

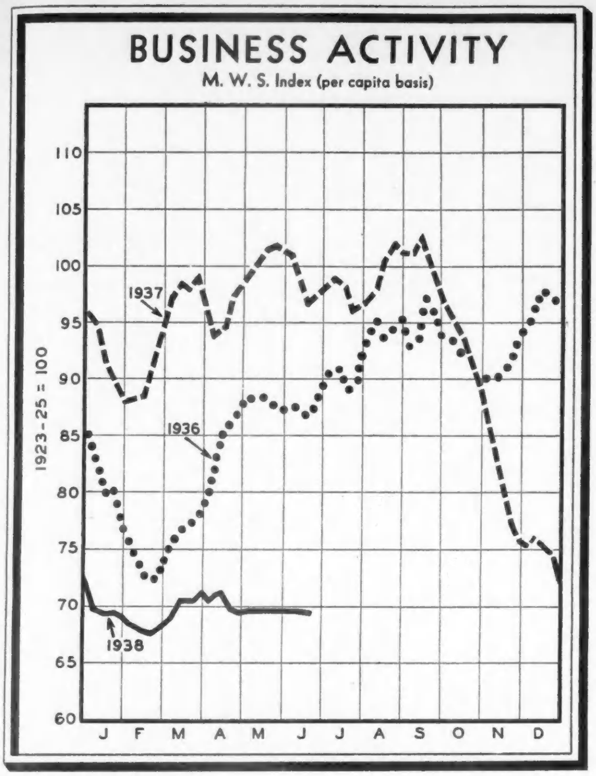
For the fiscal year ended January 31, 1938, May Department Stores recorded earnings on their capital stock of $4 a share, or slightly less than the $4.12 recorded during the preceding fiscal term. Sales increased 5.2% over the previous fiscal year. Thus far this year sales have been approximately 10% below the levels of a year earlier. At the year-end the company enjoyed a good inventory position, a factor which should enable it to take advantage of favorable buying opportunities. Of course, the sharp decline in consumer purchasing power has had a depressing effect upon prospects of the company. Until the recession has alleviated somewhat, it is only logical to expect the volume of business of the company to remain in a depressed state. On a year-to-year basis, however, we can see little to indicate that profits will not cover the annual $3 rate per capital share. The company is simply capitalized, having only 1,230,396 shares of $10 par capital stock outstanding at the fiscal year-end. The parent company does not carry any funded debt, but there are mortgage debts of subsidiaries outstanding to the extent of $5,461,850. Finances at the year's close were also characteristically strong, total current assets being compared with total current liabilities at the ratio of approximately 5 to 1. Frankly, we do not believe that the present price indicates the true worth of the shares. At the year-end the company listed their equity per share at approximately $39. This would lead us to believe that the shares are selling at a level where the current adverse conditions have been fully taken into consideration. In our belief, therefore, the logical course for you to follow is to continue retention of your shares on an income basis, and if your present commitment is not unduly large, we would favor additional purchases at this time.

Westvaco Chlorine Products Corp.

What can you tell me about Westvaco Chlorine common? I have 150 shares bought at 23¾.—G. F. H., Austin, Texas.

On the basis of the present $1 dividend, the common shares of Westvaco Chlorine afford the investor with a yield of approximately 8%. The relative stability in demand for the company's products seems to indicate that this rate will be covered by a fair margin. As you know, the company is engaged mainly in the production of chlorine and caustic soda, carbon tetrachloride and related products for the rayon and rubber goods industries and petroleum refining. The company's products are also used in numerous chemical processes in treatment of drinking water and sewage, and as a bleaching agent. While the general business recession will undoubtedly have an adverse effect upon full year profits, we believe that the shares of the company will prove a profitable holding over the longer term. The company has always enjoyed a strong financial position, total current assets being compared with total liabilities at the ratio of approximately 4 to 1 at the year-end. For the initial three months of 1938 profits declined to 30 cents per common share from 44

(Please turn to page 367)



HIGHLIGHTS

INDUSTRY—Summer slackness to be less than expected.

TRADE—Margin of sales below last year narrows. Moderate stimulus expected from pump priming disbursements.

COMMODITIES — Firming price trend.

MONEY AND CREDIT—Bank loans still contract; but purchases of Governments and disbursement of gold funds hold deposits near peak.

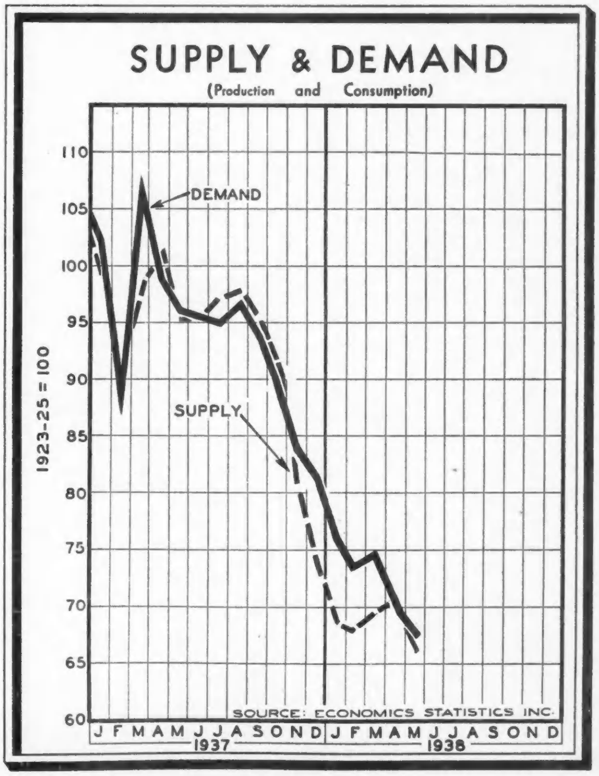
The Business Analyst

For eight consecutive weeks our Index of per capita **Business Activity** has held practically unchanged at a level about 1½ points above the depression low touched during the third week of February. Meanwhile the Bond and Raw Material Price Indexes sank to new lows amidst an atmosphere surcharged with pessimism. In face of this disheartening picture, one industry after another, week after week, turns in reports of somewhat better than seasonal gains. Recently this sub-surface improvement has found reflection in rising prices for stocks, bonds and staple commodities, a development which leads us to believe that the worst of the depression has been witnessed and that general **Industrial Activity** will begin to expand in the near future, a month or two in advance of popular expectations which have up to now scheduled the pick-up to start in late Summer or early Autumn.

* * *

Industrial improvement which is about to set in will be initiated more by almost unanimous belief in a pending revival, and by replenishment of inventories in isolated instances, than by the Government's pump priming operations, which have not yet been started and which at best can scarcely make more than a ripple in the huge monthly income stream of five

(Please turn to next page)



Business and Industry

	Date	Latest Month	Previous Month	Last Year
INDUSTRIAL PRODUCTION(b)				
World	Mar.	93.8	94.4	110.3
U. S. A. (ba)	Apr.	78	79	118
Canada	Mar.	92.4	90.6	103.9
United Kingdom	Mar.	115.6	117.2	118.3
France	Mar.	74.0	75.6	81.9
Germany	Mar.	127.0	129.0	115.6
WHOLESALE PRICES (h)	May	78.1	78.7	87.4
COST OF LIVING (d)				
All items	May	86.5	86.8	88.8
Food	May	80.8	81.1	88.4
Housing	May	87.0	87.2	86.1
Clothing	May	74.5	75.1	76.7
Fuel and Light	May	83.7	85.7	83.7
Sundries	May	97.6	97.6	96.8
Purchasing value of dollar	May	115.6	115.2	114.5
NATIONAL INCOME (cm)†	May	$4,891	$5,186	$5,407
CASH FARM INCOME†				
Farm Marketing	May	509	489	577
Including Gov't Payments	May	553	549	610
Total, First 5 Months	1938	2,780	......	3,197
Prices Received by Farmers (ee)	May	92	94	128
Prices Paid by Farmers (ee)	May	125	125	134
Ratio: Prices Received to Prices Paid (ee)	May	74	75	96
FACTORY EMPLOYMENT (f)				
Durable Goods	May	68.3	70.0	99.9
Non-durable Goods	May	87.4	89.8	104.8
FACTORY PAYROLLS (f) (not adjusted)	May	69.4	70.7	105.2
RETAIL TRADE				
Department Store Sales (f)	May	79	83	93
Chain Store Sales (g)	May	103.3	105.0	112.0
Variety Store Sales (g)	May	106.1	108.6	117.0
Mail Order Sales†	May	$78.6	$77.2	$89.0
Retail Prices (s) as of	June 1	89.5	90.2	95.6
FOREIGN TRADE				
Merchandise Imports†	May	$148.3	$159.9	$284.7
Cumulative year's total†	May 31	815.3	......	1,397.2
Exports†	May	257.2	274.5	289.9
Cumulative year's total†	May 31	1,359.5	......	1,171.2
RAILROAD EARNINGS				
Total Operating Revenues★	1st 4 ms.	$1,081,603	......	$1,382,679
Total Oper. Expenditures★	1st 4 ms.	896,657	......	1,025,823
Taxes★	1st 4 ms.	112,797	......	117,769
Net Rwy. Operating Income★	1st 4 ms.	28,792	......	195,873
Operating Ratio %	1st 4 ms.	82.90	......	74.19
Rate of Return %	1st 4 ms.	0.44	......	3.01
BUILDING Contract Awards (k)				
Total†	May	$283.2	$222.0	$244.1
Residential†	May	83.2	74.6	83.9
Public Works and Utility†	May	122.2	67.0	66.7
Non-Residential†	May	77.8	80.4	93.5
Publicly Financed†	May	143.6	99.0	92.5
Privately Financed†	May	139.6	123.0	151.5
Building Permits (c)				
214 Cities†	May	$63.7	$68.6	$79.1
New York City†	May	14.0	16.2	19.3
Total, U. S.†	May	77.7	84.8	98.4
Engineering Contracts (En)†	May	$183.8	$193.4	$235.0
CONSTRUCTION COST INDEX (En) 1913—100	June 1	236.86	236.80	237.25

PRESENT POSITION AND OUTLOOK

(Continued from page 353)

billions which people in the United States are already receiving from private business and through regular Government channels. The sum of $600,000,000 at present ear-marked for pump priming is less than a third of the soldier bonus paid in 1936, and the latter did not make much of a splash. The **utilities** alone could do a bigger and better job of pump priming through needed expenditures for expansion, if guaranteed against further political harassment.

* * *

In spite of individual situations in which prices have not been adjusted to the lower level of purchasing power, the general run of commodity prices is no longer an obstacle to recovery. Compared with a year ago, **raw material prices** are down 28%, **wholesale prices** are off 11% and **retail prices** 6.4%; while **prices received by farmers** have declined 28%.

* * *

Retail trade, counted upon to receive a lion's share of the benefits to be derived from pump priming, is already beginning to show a narrowing margin of decline below last year's level. Compared with the previous year, **department store sales** during May were down 16% in dollar totals; but only 10% in unit quantity. For week ended June 11, the drop was only 15%, compared with a four weeks' decrease of 16%. **Chain store sales** for May were off 11.2%; **variety stores,** 9%; and **mail order sales,** 11.5%.

* * *

Railroad sentiment has been brightened a little through reopening of the passenger fare increase case by the ICC; though recent crop damage is disappointing to the grangers, and it is feared that Federal loans may also reduce the movement from farms. To offset this are reports from Washington that the AAA is weighing an export subsidy to move the wheat surplus. Advance bookings indication that vacation travel this season will be fully as heavy as last year. Class I **operating revenues** in May were about 22.2% below last year, with freight showing a decline of 24% and passenger revenue off 11%. **Car loadings** are currently running about 26% under a year ago.

* * *

One of the more encouraging reports released since our last issue is from the **building** industry disclosing that **construction contracts** awarded during May in 37 States East of the Rockies were 28% ahead of April and 16% above the like month of 1937, against a five-months' decrease of 26%. **Residential** building contracts in May were only 1% behind last year, and privately financed work of all kinds showed a recession of only 8%. **Engineering contracts** awarded during the week ended June 9 were 10.5% above last year compared with a cumulative gain of only 7% for the year to date. **Building material prices** at wholesale are now 7% below last year, compared with a decline of only 6.3% reported two weeks ago.

	Date	Latest Month	Previous Month	Last Year
STEEL				
Ingot Production in tons★	May	1,807	1,925	5,152
Pig Iron Production in tons★	May	1,255	1,376	3,537
Shipments, U. S. Steel in tons★	May	465	502	1,304
AUTOMOBILES				
Production				
Factory Output	May	210,183	237,953	540,377
Total 1st 4 Mos.	1938	907,502	......	1,855,339
Retail Sales				
Passenger Cars, U. S. (p)	May	177,000	192,243	391,697
Trucks, U. S. (p)	May	31,500	35,726	65,857
PAPER (Newsprint)				
Production, U. S. & Canada★ (tons)	May	275.7	259.6	388.2
Shipments, U. S. & Canada★ (tons)	May	259.5	271.5	389.7
Stocks, U. S. & Canada★ (tons)	May 31	218.8	202.6	82.0
LIQUOR (Whisky)				
Production, Gals.★	May	7,667	8,071	17,977
Withdrawn, Gals.★	May	5,088	4,945	5,133
Stocks, Gals.★ as of	May 31	472,151	470,500	434,278
GENERAL				
Machine Tool Orders (f)	May	66.7	90.3	208.5
Railway Equipment Orders (Ry)				
Locomotive	May	5	3	14
Freight Cars	May	6,114	3	3,903
Passenger Cars	May	55	1	8
Cigarette Production†	May	14,324	12,527	13,070
Bituminous Coal Production★ (tons)	May	12,995(pl)	22,195	30,077
Boot and Shoe Production Prs.★	Apr.	32,859	37,060	40,298
Portland Cement Shipments★	May	9,752	8,678	11,890
COMMERCIAL FAILURES (c)	May	1,053	1,116	834

PRESENT POSITION AND OUTLOOK

With mild contra-seasonal expansion in assemblies during the past fortnight, sentiment is a little better in the **automobile industry,** where it is now believed that prolonged mid-Summer shutdowns may not be necessary. Production, however continues to run below sales in order to clear dealers' field stocks, which are reported to have been reduced by 100,000 units since the first of the year.

* * *

Despite a 57% drop in production, **whisky** deliveries to retailers in May were only 1% below last year, compared with a cumulative drop of 7% for 11 months. The favorable record for May doubtless reflects stocking by dealers before the new taxes go into effect. Manufacturers' inventories at the end of May, though under the year's peak were 6% above last year.

* * *

Machine tool orders booked during May dropped to a new low for the current depression, but should pick up substantially with revival in the heavy goods industries. At 66.7% of the 1926 level, new business received in May was 26% below April and 68% below May of 1937. Foreign orders, which accounted for 48% of the total, were off only 32% from last year.

WEEKLY INDICATORS

	Date	Latest Week	Previous Week	Year Ago
ELECTRIC POWER OUTPUT				
K.W.H.†	June 18	1,991	1,992	2,214
TRANSPORTATION				
Carloadings, total	June 18	555,569	553,854	752,787
Grain	June 18	36,568	30,184	31,017
Coal and Coke	June 18	86,981	86,211	122,593
Forest Products	June 18	26,592	26,035	39,272
Manufacturing & Miscellaneous	June 18	224,316	227,006	309,151
L. C. L. Mdse.	June 18	146,308	147,995	168,250
STEEL PRICES				
Pig Iron $ per ton (m)	June 21	23.25	23.25	23.25
Scrap $ per ton (m)	June 21	11.33	11.00	17.08
Finished c per lb. (m)	June 21	2.487	2.487	2.512
STEEL OPERATIONS				
% of Capacity (m) week of	June 25	28.0	26.0	75.9
CAPITAL GOODS ACTIVITY (m) week ending	June 18	43.8	43.4	88.6
PETROLEUM				
Average Daily Production bbls.★	June 18	3,137	3,132	3,511
Crude Runs to Stills Avge. bbls.★	June 18	3,080	3,155	3,311
Total Gasoline Stocks bbls.★	June 18	84,476	86,149	77,091
Gas and Fuel Oil Stocks bbls.★	June 18	137,007	136,097	100,172
Crude—Mid-Cont. $ per bbl	June 25	1.27	1.27	1.27
Crude—Pennsylvania $ per bbl.	June 25	1.50	1.50	2.35
Gasoline—Refinery $ per gal.	June 25	.06¾	.06⅝	.07⅜

PRESENT POSITION AND OUTLOOK

The margin of decline in **electric power output** below last year has narrowed to around 10%, and sales should recover briskly with the coming revival in general industrial activity. President Roosevelt has assured Congress that the Government will not help finance the construction of municipal power plants until a fair and bona fide offer has been made to purchase existing facilities.

* * *

Rising prices for **scrap**, owing largely to a temporary scarcity of offerings, and a moderate contra-seasonal expansion in **steel** operations as producers and miscellaneous consumers move to replenish inventories, has created a better feeling in trade circles and leads to a belief that the industry has touched bottom. (See page 318).

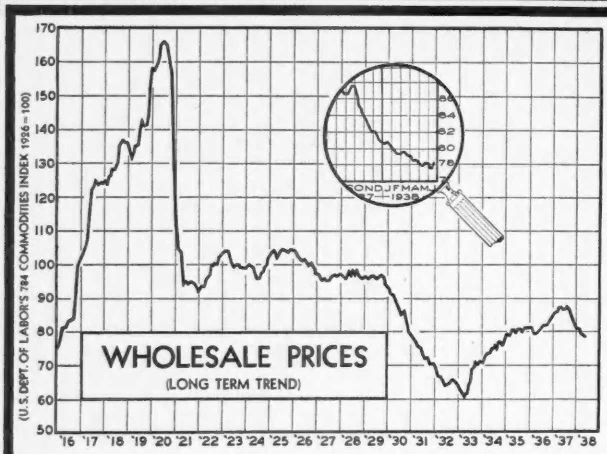
* * *

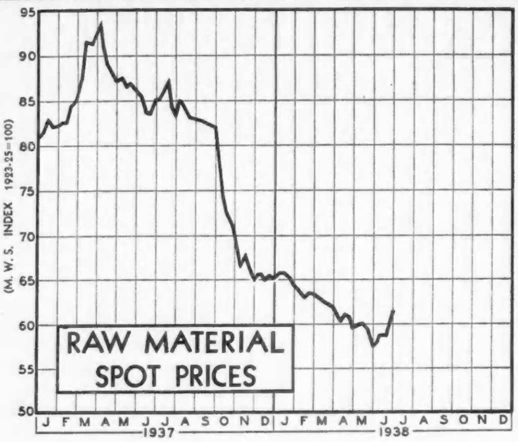
A sharp drop in **gasoline** stocks during the past fortnight, to a level only 11% above last year, has brought a rise of ⅛c in the mid-Continent area, the second advance in two weeks. Crude production is down to 11% below last year and, with **crude** inventories off 3% from a year ago, the oil crisis is believed to have passed. The only remaining weak spot is **fuel oil,** where stocks have risen to 39% above last year.

†—Millions. ★—Thousands. (b)—Annalist Index 1928—100. (ba)—Federal Reserve 1923-25—100. (c)—Dun & Bradstreet's (cm)—Dept. of Commerce estimates of income paid out. (d)—Nat. Ind. Conf. Bd. 1923—100. (e)—Dept. of Agric., 1924-29—100. (ee)—Dept. of Agric., 1909-14—100. (f)—1923-25—100. (g)—Chain Store Age 1929-31—100. (h)—U.S.B.L.S. 1926—100. (k)—F. W. Dodge Corp. (m)—Iron Age. (n)—1926—100. (p)—R. L. Polk & Co.'s Estimate. (pl)—Preliminary. (s)—Fairchild Index, Dec. 1930—100. (En)—Engineering News Record. (Ry)—Railway Age.

Trend of Commodities

Impressive strength in the stock market and increasing confidence in the fall business prospect have imparted a strong underlying tone to the trend of basic commodity prices. During the past week commodity markets were featured by increases in the prices of lead and zinc; tin prices were higher; and strength in export copper has fostered the belief that higher prices for domestic copper are imminent. Equally significant was the revival in the cotton textile market. Prices of raw cotton, rising on reports of unsatisfactory weather conditions, have scored a gain of more than 100 points since the end of May. Hides and rubber were higher. Sustained prices in commodities promised to make a salutary contribution to the general business outlook.





Changes in Major Commodity Price Group for the Fortnight Ended June 18, 1938

Farm Products	69.7	up 2.5	Metals	96.5	up 0.8
Foods	73.5	up 1.2	Building Material	89.8	down 0.2
Hides and Leather	91.1	down 0.4	Chemical	75.8	down 0.1
Textiles	64.8	down 0.7	Housefurnishings	88.6	no change
Fuel and Lighting	76.7	up 0.2			

	Date	Latest Wk. or Mo.	Previous Wk. or Mo.	Year Ago
COTTON				
Price cents per pound, closing				
July	June 25	8.75	8.41	12.24
Oct.	June 25	8.76	8.42	12.25
Spot	June 25	8.85	8.51	12.76
(In bales 000's)				
Visible Supply, World	June 24	8,246	8,376	5,033
Takings, World, wk. end	June 24	296	254	273
Takings, World, season to	June 24	16,207	15,911	20,557
Consumption, U. S.	May	426	414	670
Exports, wk. end	June 24	31	60	42
Total Exports, season to	June 24	5,473	5,434	5,286
Government Crop Est. (final)	1937	18,946	......	12,399
Active Spindles (000's)	May	21,342	21,786	24,656
WHEAT				
Price $ per bu. Chi. closing				
July	June 25	77¼	76⅞	116¼
Sept.	June 25	78¼	77¾	116⅞
Exports, bu. (000's) since July 1 to	June 18	128,297	125,374	116,544
Exports bu. (000's) wk. end	June 18	2,923	3,674	2,628
Visible Supply bu. (000's) as of	June 18	24,125	25,881	9,659
Gov't Crop Est. bu. (000's) winter	June 1	760,623	754,153	685,102(e)
CORN				
Price cents per bu. Chi. closing				
July	June 25	57½	57⅜	122¾
Sept.	June 25	59	58¾	108⅜
Exports, bu. (000's) since July 1 to	June 18	86,029	83,110	7
Visible Supply (bu. 000's) as of	June 18	23,075	24,371	4,507
Gov't Crop Est. (bu. 000's)	Dec. 1	72,644,995	......	1,502,089(e)

PRESENT POSITION AND OUTLOOK

Cotton. With weather conditions continuing generally unfavorable for the new crop and with cotton goods buyers more active than in many months, raw cotton prices have scored impressive gains. It is certain that cotton goods inventories in the hands of retailers and converters have been drastically depleted. Meanwhile manufacturing activity has been restricted to basis lower than recent consumption. As a result the setting is favorable for an early revival in textile activity.

* * *

Wheat. Prices have turned somewhat reactionary, a natural technical sequence following the increase of about 15 cents a bushel in less than three weeks. Weather conditions have assumed a dominating role and late reports indicate that heavy rains have had both the effect of spreading rust damage and delaying harvesting. The Government loan program also promises to be a vital factor and the terms are expected shortly after the Government crop estimate scheduled to be released July 11. Export prospects have been blowing hot and cold, latest advices indicating that export shipments may not come up to previous expectations. Prices may react further.

* * *

Corn. Price changes have been devoid of significance. Primary offerings have been smaller and export shipments have eased. The lull in exports, however, is likely to prove temporary.

	Date	Latest Wk. or Mo.	Previous Wk. or Mo.	Year Ago
COPPER				
Price cents per lb.				
Domestic	June 25	9.00	9.00	14.00
Export c. i. f.	June 25	9.25	8.65	13.12
Refined Prod., Domestic (tons)	May	47,300	55,749	95.265
Refined Del., Domestic (tons)	May	28,044	31,684	81,336
Refined Stocks, Domestic (tons)	May	369,809	355,663	108,585
Refined Prod., World (tons)	May	144,344	162,588	204,140
Refined Del., World (tons)	May	136,567	161,261	196,055
Refined Stocks, World (tons)	May	554,356	541,579	291,448
TIN				
Price cents per lb., N. Y.	June 25	42.90	40.25	54.625
Tin Plate, price $ per box	May	5.35	5.35	5.35
World Visible Supply†	June 1	19,660	20,745	19,398
U. S. Deliveries†	May	4,275	3,725	6,425
U. S. Visible Supply†	June 1	3,679	4,447	5,144
LEAD				
Price cents per lb., N. Y.	June 25	4.50	4.00	6.00
U. S. Production (tons)	May	32,977	39,291	42,605
U. S. Shipments (tons)	May	26,011	25,952	55,212
Stocks (tons) U. S., as of	May 31	163,723	156,715	115,843
ZINC				
Price cents per lb., St. Louis	June 25	4.50	4.00	7.10
U. S. Production (tons)	May	37,510	38,035	55,012
U. S. Shipments (tons)	May	24,628	20,806	55,201
Stocks (tons) U. S., as of	May	148,120	135,238	13,774
SILK				
Price $ per lb. Japan xx crack	June 25	1.68-1.73	1.61-1.66	1.86-1.91
Mill Dels. U. S. (bales), season to	May 31	348,988	......	447,959
Mill Deliveries U. S. (bales)	May	28,687	33,381	35,278
Visible Stocks N. Y. (bales)	May 31	37,016	41,455	41,302
Visible Stocks, World (bales) as of	May 31	135,616	130,955	140,802
RAYON (Yarn)				
Price cents per lb.	June 25	0.49	0.49	0.63
Deliveries (a)	May	444	445	724
All Rayon—Month's Supply	June 1	3.8	3.5	0.1
WOOL				
Price cents per lb., territory fine	June 25	64-66	64-66	101-103
HIDES				
Price cents per lb. Hvy. Native Chi.	June 25	9½	9½	16
Visible Stocks (000's) (b) as of	Apr. 30	14,029	14,576	15,753
No. of Mos. Supply, as of	Apr. 30	8.3	9.0	7.1
RUBBER				
Price cents per lb.	June 25	13⅞	12¼	19¾
Imports, U. S.†	May	27,410	30,807	50,840
Consumption, U. S.†	May	28,947	27,984	51,795
Stocks, U. S., as of	May 31	299,720	301,439	175,273
Tire Production (000's)	May	2,842	2,705	5,352
Tire Shipments (000's)	May	3,372	3,199	5,375
Tire Inventory (000's) as of	May	9,855	10,317	12,592
COFFEE				
Price cents per lb. (c)				
July Delivery	June 25	7½	7½	11⅝
Imports (bags 000's)	May	1,137	1,208	......
Imports, season to	May	11,270	......	11,607
U. S. Visible Supply (bags 000's)	June 1	1,299	1,333	1,390
SUGAR				
Price cents per lb.				
Domestic No. 3 July	June 25	1.77	1.78	2.49
Duty free delivered	June 25	2.66	2.70	3.45
Refined (Immediate Shipment)	June 25	4.50	4.50	4.70
U. S. Deliveries (000's)*	1st 5 Mos.	2,194	......	2,714
U. S. Ref. Stocks (000's)* as of	Apr. 30	1,747	......	1,137

PRESENT POSITION AND OUTLOOK

Copper. Taking their cue apparently from the stock market domestic copper sales have displayed increasing activity. The statistical position of copper will be given timely aid by the decision of the foreign cartel to cut production quotas from 71,000 to 64,000 tons a month. The domestic position will be strengthened by curtailed production on the part of at least two leading companies. Export prices, for the first time since late 1937, rose above the domestic quotation.

* * *

Tin. Exports of tin in the third quarter will be held to 35% of standard tonnages, and 10% will be acquired by the recently formed buffer pool. Prices strengthened appreciably following this announcement. Buying activity, however, has been confined largely to foreign markets.

* * *

Lead. Although May statistics revealed a further increase of 7,000 tons in refined stocks, production was off 6,300 tons. The past week witnessed the most active demand in some time, permitting three price increases in short order.

* * *

Zinc. Notwithstanding a much weaker statistical position than lead, zinc prices under the stimulus of large orders were also advanced. Prices are still below production costs and with a drastic restriction in production now in effect further increases may be in order.

* * *

Silk. Prices have firmed and buyers have turned wary, awaiting developments. As a result, mill takings in June may fall slightly under May. Previously 30,000 bales had been mentioned as probable consumption for June.

* * *

Rayon. Buying interest has displayed signs of moderate revival and appears likely to gain momentum in the near future. Meanwhile production is being geared fairly close to demand.

* * *

Wool. Sales continue spotty, although there are signs of a growing revival in knitting yarns. Prices continue firm and unchanged.

* * *

Hides. Prices of hides, always sensitive to the stock market have risen sharply and market interest is active. Cattle receipts and slaughter are running behind last year.

* * *

Rubber. Prospects of early improvement in statistical position coupled with better industrial demand have activated a substantial rally in crude rubber. Prices crossed 13 cents.

* * *

Coffee. Surplus stocks are large but are being reduced steadily. Current prices less than cost of production.

* * *

Sugar. May deliveries were larger than for the same month a year ago but for the first five months were about 420,000 tons behind last year. There is talk of a further cut in quotas. Present prices unprofitable for most producers.

(a)—Expressed in % (1923-25—100). (c)—Wholesale Ro No. 7 N. Y. (d)—Year Ago. †—Long tons.

Money and Banking

	Date	Latest Week	Previous Week	Year Ago
INTEREST RATES				
Time Money (60-90 days)	June 25	1¼%	1¼%	1¼%
Prime Commercial Paper	June 25	1%	1%	1%
Call Money	June 25	1%	1%	1%
Re-discount Rate, N. Y.	June 25	1%	1%	1½%
CREDIT (millions of $)				
Bank Clearings (outside N. Y.)	June 11	2,251	2,054	2,550
Cumulative year's total to	June 11	52,729	......	61,886
Bank Clearings, N. Y.	June 11	4,380	2,956	3,501
Cumulative year's total to	June 11	71,764	......	88,699
F. R. Member Banks				
Loans and Investments	June 15	20,866	20,944	22,573
Commercial, Agr., Ind. Loans	June 15	3,958	3,962	4,326
Brokers Loans	June 15	663	873	1,370
Invest. in U. S. Govts	June 15	8,032	7,891	8,556
Invest. in Govt. Gtd. Securities	June 15	1,451	1,434	1,175
Other Securities	June 15	3,022	2,994	3,111
Demand Deposits	June 15	15,065	15,034	15,242
Time Deposits	June 15	5,227	5,230	5,233
New York City Member Banks				
Total Loans and Invest.	June 22	7,584	7,793	8,513
Comm'l Ind. and Agr. Loans	June 22	1,501	1,514	1,712
Invest. U. S. Govts. dir. & gtd	June 22	3,574	1,757	3,461
Demand Deposits	June 22	6,187	6,260	6,252
Time Deposits	June 22	659	656	722
Federal Reserve Banks				
Member Bank Reserve Balance	June 22	7,922	7,904	6,854
Money in Circulation	June 22	6,402	6,420	6,394
Gold Stock	June 22	12,957	12,950	12,270
Treasury Currency	June 22	2,710	2,707	2,550
Treasury Cash	June 22	2,293	2,289	3,396
Excess Reserves	June 22	2,780	2,730	810
		Latest Month	Last Month	Year Ago
NEW FINANCING (millions of $)				
Corporate	May	61.6	78.7	173.2
New Capital	May	35.9	12.3	81.0
Refunding	May	25.7	66.5	92.2
Government	May	236.0	391.1	400.5
Refunding	May	200.7	351.0	200.0
Addition to Debt	May	35.3	40.1	200.5

COMMENT

Short term money rates continue little more than nominal. Yields on short term Treasury bills are fantastically low, lower in fact than ever before known. Yields on Treasury notes bearing maturities as late as 1942 are yielding less than 1 per cent, while earlier maturities are quoted on a no-yield basis, holders being content apparently to anticipate possible conversion privileges.

* * *

As anticipated two weeks ago, the exceptional increase of $465,000,000 in the loans and investments of **New York City Member Banks** has been substantially reduced over the past fortnight. In the most recent week, loans and investments of these banks dropped $209,000,000, due mainly to a reduction of $183,000,000 in holdings of U. S. Government obligations, both direct and guaranteed. Commercial loans were off $13,000,000, while holdings of other securities increased $9,000,000. A further decline in credit is foreshadowed by the imminent retirement of $100,000,000 short term securities of New York State. Since last October commercial loans of New York banks have declined nearly $450,000,000 and it is expected that the $50,000,000 U. S. Steel loan may shortly be retired. From a longer term viewpoint, however, the recent upturn in commodity and security prices carries hopeful implications. Excess reserves of all **Federal Reserve Banks** rose $50,000,000 in the most recent week to $2,780,000,000, the highest figure since August 1936.

* * *

New financing last week totaled some $105,500,000 and was within $3,000,000 of the level a year ago. The decision of the Standard Oil Co. of N. J. to raise $85,000,000 for capital expenditures, following on the heels of the U. S. Steel $100,000,000 financing, may well herald a more widespread revival of new financing for new capital.

POSITION OF FOREIGN BANKS

	June 22, 1938	June 23, 1937
BANK OF ENGLAND		
Circulation	£483,272,000	£483,719,000
Public Deposits	21,656,000	15,459,000
Private Deposits	140,820,000	132,173,000
Bankers Accounts	105,513,000	94,987,000
Other Accounts	35,307,000	37,186,000
Government Securities	110,176,000	98,028,000
Other Securities	26,127,000	23,934,000
Discount and Advances	5,500,000	3,756,000
Securities	20,627,000	20,187,000
Reserves	44,053,000	43,589,000
Coin and Bullion	327,325,000	327,308,000
BANK OF FRANCE	June 16, 1938	June 17, 1937
Gold Holdings	Fr.55,808,000,000	Fr.57,359,000,000
Credit Balances Abroad	783,000,000	15,000,000
French Commercial Bills Disc.	6,102,000,000	8,115,000,000
Wheat office bills	315,000,000	....
Advance Against Securities	3,520,000,000	4,080,000,000
Note Circulation	99,413,000,000	85,798,000,000
Credit Current Accounts	18,305,000,000	18,633,000,000
Temp. Advs. to State	40,133,000,000	19,970,000,000
Gold on Hand to Sight Liabilities	47.41%	54.92%

COMMENT

Taking no chances, British Treasury officials were careful to make the second defense loan attractive to investors. The most recent loan totaled £80,000,000, was priced at 98 and carried a 3% coupon. As a result it was snapped up immediately, in direct contrast with the first loan which was larger and carried a smaller coupon rate. Business activity continues to recede as the volume of unfilled orders is reduced and new bookings lag. On the whole, however, the business picture is better than in the U. S., and an air of comparative calm prevails, apparently based on the belief that a further decline of 10 to 15% will see the end of the slump. The revived confidence manifested in American securities markets and the more hopeful aspects of the foreign political situation have had a decidedly cheering effect abroad.

* * *

Thus far improvement in the economic position of France has been largely financial. Capital has returned to France and government bonds have improved. Parliament has adjourned and further decrees are expected to be issued by the Daladier government.

POSITION OF FOREIGN BANKS—Continued

GERMAN REICHSBANK	June 15, 1938	June 15, 1937
Gold and Bullion	Rm.70,773,000	Rm.68,825,000
Of Which Deposits Abroad	20,333,000	19,359,000
Reserve in Foreign Currency	5,749,000	5,699,000
Bills of Exchange & Checks	5,387,477,000	4,567,887,000
Investments	844,947,000	414,225,000
Other Assets	1,170,116,000	777,914,000
Notes in Circulation	5,845,000,000	4,560,606,000
Other Daily Matured Obligations	1,009,915,000	715,534,000
Other Liabilities	252,208,000	197,551,000
Proportion of Gold & Foreign Currency to Note Circulation	1.3%	1.63%

While general industrial activity in Germany is being maintained at a high level, the economic structure must inevitably be weakened by the renewed drive against Jewish business firms and the inability of Germany to match imports by exports. Foreign trade has declined for two consecutive months and Germany's unfavorable balance of trade this year now amounts to $30,-000,000. This is a serious situation for a country which is in such dire need of outside goods and materials, but seriously strapped in its ability to pay for foreign merchandise.

* * *

BANK OF CANADA	June 22, 1938	June 23, 1937
Reserve Gold, Coin & Bullion	$181,765,000	$181,137,000
Silver Bullion	....	2,469,000
Reserve in Sterl. & U. S. Dollars	46,055,000	28,640,000
Subsidiary Coins	351,000	194,000
Dom. & Prov. Govt. Short Term Securities	112,983,000	35,926,000
Other Dom. & Prov. Securities	51,909,000	98,404,000
Other Securities	5,057,000	4,999,000
Note Circulation	153,813,000	131,247,000
Deposits—Dom. Govt.	40,655,000	18,770,000
Chartered Banks	192,779,000	191,893,000
Res. to Note & Dep. Liabilities	58.53%	....

Although the level of business activity in Canada continues toward lower levels, the decline has not been great and the outlook is favored by good crop prospects. Most basic industries are operating at a level from about 8 to 10% under last year. Exports in the first two months of the current fiscal year were off about 25%, the greatest decline occurring in trade with the United States. Mining is the most active industry but more recently construction activity shows signs of an upturn.

FOREIGN EXCHANGE IN DOLLAR TERMS

Quotations in cents and decimals of a cent except pound sterling which is in dollars and cents.

Country and Par	Demand June 24	Demand Year Ago	Cables June 24	Cables Year Ago
Great Britain ($8.2397 a sov.)	4.96¼	4.94⅛	4.96¼	4.94⅛
Belgium (16.9502c a belga)	17.00	16.89½	17.00	16.89½
Bulgaria (1.22c a lev) ¶	1.27	.....	1.27	.....
Czechoslovakia (3.51c a crown)	3.47¾	3.48¾	3.47¾	3.48¾
Denmark (45.374c a krone)	22.15½	22.06	22.15½	22.06
Finland (4.264c a finmark)	2.19¾	2.18¾	2.19¾	2.18¾
France (par not definite)	2.79	4.45⅝	2.79	4.45⅝
Germany (40.33c a mark)**	40.30½	40.10	40.30½	40.10
Germany (benevolent mark)	20.40	.....	20.40	.....
Germany (travel mark)	22.90	25.15	22.90	25.15
Germany (emigrant mark)	4.00	.....	4.00	.....
Germany (kredit mark)	4.60	.....	4.60	.....
Greece (2.197c a drachma)	0.91	0.90¾	0.91⅛	0.91
Holland (par not definite)	55.45	54.99	55.45	54.99
Hungary (29.613c a pengo) ¶	19.85	19.75	19.85	19.75
Italy (5.2634c a lira) §	5.26¼	5.26½	5.26¼	5.26½
Norway (45.374c a krone)	24.94	24.83	24.94	24.83
Poland (18.994c a zloty)	18.87	18.98	18.87	18.98
Portugal (7.483c an escudo)	4.53½	4.50	4.53½	4.50
Sweden (45.374c a krona)	25.59	25.48	25.59	25.48
Switzerland (par not definite)	22.98	22.91¼	22.98	22.91¼
Yugoslavia (2.981c a dinar)	2.35	2.33	2.35	2.33
Shanghai dollars (unsettled)	18.75	29.81	18.75	29.81
Hongkong dollars (unsettled)	30.99	30.44	30.99	30.44
India (61.798c a rupee)	36.82	37.33	36.82	37.33
Japan (84.39c a yen)	28.97	28.74	28.97	28.74
Sts. Settlements (96.139c a dollar)	57.75	58.05	57.75	58.05
Argentina (71.87c a paper peso) ¶	26.15	30.40	26.15	30.40
Argentina (71.87c a paper peso)**	33.08	32.94	33.08	32.94
Brazil (20.25c a paper milreis)**	5.85	6.60	5.85	6.60
Chile (20.599c a gold peso)†	5.19	5.19	5.19	5.19
Colombia ($1.645 a gold peso)**	55.40	56.90	55.40	56.90
Mexico, peso (unsettled)†	22.25	27.80	22.25	27.80
Peru (47.409c a sol)†	23.50	25.25	23.50	25.25
Uruguay ($1.751 a gold peso) ¶	43.00	56.00	43.00	56.00
Uruguay ($1.751 a gold peso)*†	65.28	79.40	65.28	79.40
Venezuela (32.67c a bolivar) ¶	31.62½	32.00	31.62½	32.00
Venezuela (32.67c a bolivar)**	31.62½	.....	31.62½	.....
Ecuador (5 sucres a dollar) ¶†	7.25	10.00	7.25	10.00

COMMENT

The past fortnight has brought a marked reversal of sentiment in foreign exchange circles. Improvement has been brought about by an easing in the tense political situation abroad and the belief is growing that efforts now being undertaken to end the civil war in Spain may produce definite results. Rising security and commodity prices both in New York and London, as well as on the Continent have also played an important part in stabilizing foreign exchange. Fears over the dollar have been largely dispelled by official denials here that no further devaluation was contemplated at this time. Indicative of the growing feeling of confidence, has been the marked flow of funds from London to Paris, so strong in fact that for the first time in a long while the French exchange control was compelled to sell francs to restrain rise.

* * *

Further evidence that Japanese exchange is feeling the pinch is apparent in the recent order that Japanese nationals travelling abroad will be permitted to take out in cash a maximum of only 5,000 yen, equal to less than $1,500.

* * *

Argentine exchange continues steady, notwithstanding the continued rise in imports and a decline in exports. The official peso exchange rate has been maintained unchanged, while the free market has been held to a fairly even keel through the efforts of the Central Bank.

†—Nominal quotations. ¶—Free rate. **—Official rate. §—Travel Lira 4.75c.

Security Statistics

THE MAGAZINE OF WALL STREET COMMON STOCK INDEX

1937 Indexes High	1937 Indexes Low	No. of Issues (1925 Close—100)	1938 Indexes High	1938 Indexes Low	June 11	June 18	June 25
122.0	54.3	330 COMBINED AVERAGE	65.9	44.2	49.0	48.7	59.3
253.3	111.4	5 Agricultural Implements	130.9	88.5	93.7	91.5	122.5
72.6	34.0	6 Amusements	41.4	24.7	27.6	30.1	34.9
146.6	52.1	16 Automobile Accessories	70.6	43.1	45.1	44.8	59.1
30.1	8.9	12 Automobiles	12.4	7.0	7.7	7.5	9.5
178.0	73.4	9 Aviation (1927 Cl.—100)	109.6	75.2	98.0	96.5	106.8
28.5	9.3	3 Baking (1926 Cl.—100)	12.7	8.9	11.1	11.3	12.1
308.6	135.4	3 Business Machines	159.6	120.2	130.5	126.5	153.4
247.7	132.6	9 Chemicals	157.7	111.6	123.0	123.8	146.7
88.3	32.9	18 Construction	39.3	25.6	30.6	30.4	38.5
361.0	193.4	5 Containers	223.9	173.8	184.9	184.0	223.9h
217.3	75.3	9 Copper & Brass	102.0	60.0	66.4	66.1	84.1
43.0	24.5	2 Dairy Products	28.0	23.1	23.7	23.2	25.6
42.7	15.2	9 Department Stores	19.0	12.2	14.2	14.9	19.0h
108.8	45.2	9 Drugs & Toilet Articles	55.0	40.1	41.0	41.0	50.2
388.4	182.6	2 Finance Companies	219.4	158.1	179.9	175.6	205.2
71.9	37.5	7 Food Brands	49.4	33.3	41.5	41.6	49.4h
53.2	25.9	4 Food Stores	30.2	20.5	21.8	21.4	24.4
122.3	46.4	4 Furniture & Floor Covering	57.4	36.9	40.5	39.7	50.1
1160.6	894.0	3 Gold Mining	1204.8	953.7	1135.3	1162.2	1111.8
58.6	25.8	6 Investment Trusts	29.9	21.1	22.8	22.8	28.5
317.8	167.2	4 Liquor (1932 Cl.—100)	194.2	140.7	143.0	140.7L	156.6
209.8	97.8	9 Machinery	114.5	77.6	87.3	85.9	106.4
104.3	53.8	2 Mail Order	66.8	49.1	54.7	55.4	66.8h
109.6	47.5	4 Meat Packing	55.3	36.5	39.4	40.7	46.3
334.1	138.6	15 Metals, non-Ferrous	177.9	116.0	124.7	122.7	159.5
26.5	7.4	2 Paper	9.7	5.8	7.3	7.1	8.6
158.8	90.8	23 Petroleum	104.3	76.2	85.3	84.3	98.1
114.9	50.5	18 Public Utilities	60.0	38.8	47.5	46.3	53.6
31.7	13.3	4 Radio (1927 Cl.—100)	16.9	10.3	11.2	11.2	14.5
112.9	37.7	9 Railroad Equipment	48.3	28.2	31.2	30.5	41.1
48.6	16.2	23 Railroads	18.6	10.6	11.0	10.6L	14.2
28.5	6.9	3 Realty	9.2	4.7	6.8	6.6	8.1
87.6	34.9	3 Shipbuilding	62.6	36.1	43.1	43.6	50.2
165.6	69.6	13 Steel & Iron	85.8	55.2	58.4	57.4	77.4
45.2	21.6	6 Sugar	25.7	17.4	18.5	18.0	21.1
171.2	118.6	2 Sulphur	147.3	118.6	136.5	136.0	146.6
85.3	43.2	3 Telephone & Telegraph	53.0	37.6	46.3	46.1	53.0h
91.8	35.3	7 Textiles	42.9	27.9	30.2	30.5	37.6
29.2	10.7	4 Tires & Rubber	14.2	10.0	10.6	10.3	13.0
99.4	68.3	4 Tobacco	75.9	63.8	70.0	71.4	75.8
71.9	20.6	5 Traction	31.2	15.6	24.7	23.4	24.7
346.8	157.7	4 Variety Stores	189.1	146.0	165.4	165.9	188.6
.....	.....	22 Unclassified 1937 Cl.—100)	122.0	84.7	94.7	94.6	108.6

h—New HIGH this year. L—New LOW since 1936.

DAILY INDEX OF SECURITIES

	N. Y. Times 40 Bonds	Dow-Jones Avgs. 30 Indus.	Dow-Jones Avgs. 20 Rails	N. Y. Times —50 Stocks— High	N. Y. Times —50 Stocks— Low	Sales
Monday, June 13	65.69	111.87	20.16	79.21	78.18	326,890
Tuesday, June 14	65.57	112.78	20.40	79.07	77.98	346,450
Wednesday, June 15	65.25	113.24	20.23	79.85	78.93	344,620
Thursday, June 16	64.91	113.97	20.05	79.70	78.78	342,300
Friday, June 17	64.80	113.06	19.68	79.68	78.39	327,840
Saturday, June 18	64.75	113.23	19.73	79.02	78.81	104,530
Monday, June 20	65.44	118.61	20.70	83.00	80.38	1,087,050
Tuesday, June 21	65.85	121.34	21.51	85.30	83.00	1,457,030
Wednesday, June 22	66.55	123.99	22.46	87.56	84.27	1,713,050
Thursday, June 23	67.14	127.40	24.60	91.04	87.27	2,403,270
Friday, June 24	67.17	129.06	25.06	92.52	90.00	2,290,540
Saturday, June 25	67.30	131.94	25.45	93.32	90.48	1,161,700

STOCK MARKET VOLUME

Week Ended June 25	Week Ended June 18	Week Ended June 11
10,112,640	1,792,530	2,218,540
Total Transactions Year to June 25	Same Date 1937	Same Date 1936
108,525,798	226,921,387	259,174,445

COMMENTS

In the sharpest and most spectacular advance for any single week on record since we began computing our Price Index at the beginning of 1926 the Combined Average of 330 active common stocks rose 10.6 points, or nearly 22%, during the week ended June 25, to the highest level touched since Feb. 26. The kaleidoscopic character of this sudden change of front is brought into sharp relief by the circumstances that, during the past fortnight, two groups—Liquor and the Rails—sank to new lows since 1936 (the latter reaching down to within a fifth point of the lowest level touched since we have been publishing the Index), while five groups—Containers, Department Stores, Food Brands, Mail Order, Telephone & Telegraph—established new highs for the year.

* * *

Gauged by the "Bench mark" method, ten groups—Aviation, Baking, Construction, Investment Trusts, Public Utilities, Realty, Steel & Iron, Sulphur, Tobacco and Variety Stores—in addition to the above mentioned five which established new highs for the year, displayed greater strength than the general market by advancing to levels above the Feb. 26 bench mark. Consistent technical strength in most of these groups has been commented upon repeatedly in this column; but greater than average technical strength in the Utilities is something new and well worth watching, apparently indicating a brighter outlook for that industry, political and economic.

* * *

Groups which fell short of the Feb. 26 bench mark, and so displayed technical weakness, include Agricultural Implements, Amusements, Auto. Accessories, Automobiles, Copper, Dairy Products, Finance Cos., Food Stores, Furniture, Gold Mining, Liquor, Railroad Equipment, Railroads, Shipbuilding, Sugar, Textiles, and the New York Tractions. For the most part it is well to confine new commitments to the technically strong groups, and avoid the weak list until conditions change; though there may be exceptions to this rule among individual issues.

* * *

Among our 43 component groups, Gold Mining stocks were the only ones to decline last week. Of course the Gold Mining shares usually do move counter to the general market; but, in this instance, their weakness was accentuated by positive official denials that the dollar is to be devalued. Shipbuilding issues, which displayed technical strength earlier in the year, have of recent weeks been softer than the market because unit profits are disappointing in view of the heavy tonnage under construction. Groups not specifically mentioned merely moved with the market.

New York Stock Exchange Price Range of Active Stocks

Rails

	1936 High	1936 Low	1937 High	1937 Low	1938 High	1938 Low	Last Sale 6/23/38	Div'd $ Per Share
A								
Atchison	88½	59	94¾	32⅞	42	22¼	31⅛	‡2.00
Atlantic Coast Line	49	21⅝	55½	18	27⅜	14	19⅝	‡1.50
B								
Baltimore & Ohio	26½	15⅞	40½	8⅛	10⅞	4	6⅜	....
Bangor & Aroostook	49½	39	45	30	34	29	32	2.50
C								
Canadian Pacific	16	10⅞	17½	6⅞	8⅛	5	6⅛	....
Chesapeake Corp.	100	59	90½	40	48½	27⅛	36¾	....
Chesapeake & Ohio	77¾	51	68⅞	31	38½	22	28½	†1.75
Chicago Gt. Western Pfd	14⅝	4	18¼	3	5⅜	2⅜	3½	....
C. M. & St. Paul & Pacific	2⅞	1½	3¼	⅝	1	½	⅝	....
C. M. & St. Paul & Pacific Pfd	5⅞	2⅞	7¼	1⅛	1⅞	¾	1⅛	....
Chicago & North Western	4⅞	2½	6⅜	⅞	1¾	¾	⅞	....
D								
Delaware & Hudson	54¾	36¾	58⅜	13	17⅞	7½	11⅜	....
Delaware, Lack. & West	23⅛	14⅞	24½	5	8½	4	6⅛	....
E								
Erie R. R.	18¼	11	23⅝	4¼	6¼	1¾	2½	....
G								
Great Northern Pfd.	46⅜	32¼	56¾	20½	26¼	12⅜	18¼	....
I								
Illinois Central	29½	18⅝	38	8	12¼	6⅛	9⅝	....
K								
Kansas City Southern	26	13	29	5	9¾	5⅛	9½	....
L								
Lehigh Valley	22	8½	24⅝	4¼	1⅛	½	¾	....
Louisville & Nashville	102⅜	57½	99	48½	56½	29⅞	38½	†2.50
M								
Mo., Kansas & Texas	9⅝	5½	9¾	2	3⅜	1½	2¼	....
Mo., Kansas & Texas Pfd., A	33⅜	14½	34⅝	5⅛	11⅛	4¾	8	....
Missouri Pacific	4	2⅛	6¼	1¼	2⅜	¾	1⅛	....
N								
New York Central	49⅝	27¾	55¼	15⅛	19⅞	10	14⅝	....
N. Y., Chic. & St. Louis	53⅛	17¾	72	14	22½	7	13¼	....
N. Y., N. H. & Hartford	6⅛	3	9¾	2	2¾	1⅛	1⅜	....
Norfolk & Western	310½	210	272	180	198	133	159	*10.00
Northern Pacific	36¾	23⅞	36⅝	9⅞	13⅜	6⅜	9⅞	....
P								
Pennsylvania	45	28¼	50¼	20	24½	14⅛	16⅞	....
R								
Reading	50¾	35½	47	18⅛	22	10⅜	15¼	2.00
S								
St. Louis-San Fran	3⅝	1½	4¾	1	1¼	⅝	⅞	....
Southern Pacific	47⅞	23½	65⅜	17	22⅛	9¼	14	....
Southern Railway	26½	12¾	43⅜	9	13¾	5½	8⅞	....
T								
Texas & Pacific	49	28	54¼	15⅝	34½	13	22	....
U								
Union Pacific	149¾	108½	148¾	80	88½	55⅜	75	†4.50
W								
Western Maryland	12⅛	8⅛	11¾	2⅝	4½	2⅝	3⅝	....
Western Pacific	4	1⅞	4¾	1	1⅝	½	1	....

Industrials and Miscellaneous

	1936 High	1936 Low	1937 High	1937 Low	1938 High	1938 Low	Last Sale 6/23/38	Div'd $ Per Share
A								
Air Reduction	86½	58	80¼	44½	58¼	40	55½	*1.00
Alaska Juneau	17½	13	15¾	8	13⅜	8¾	9⅞	*.60
Allegheny Steel	40⅜	26⅞	45⅝	13	21¾	11⅝	19	....
Allied Chemical & Dye	245	157	258½	145	176½	124	167½	6.00
Allied Stores	20⅛	6¾	21⅞	6⅛	9⅜	4½	7⅝	....
Allis-Chalmers Mfg	81	35⅜	83½	34	51¾	34¼	45¼	†.75
Amerada	125½	75	114⅞	51½	72½	55	70	2.00
Amer. Agric. Chemical (Del.)	89	49	101½	53½	66	49	59	†2.25
Amer. Bank Note	55½	36	41⅜	10	17⅞	10	17½	†.60
Amer. Brake Shoe & Fdy	70¼	40	80¾	28	42½	23¼	32½	†.50
Amer. Can	137½	110	121	69	97	70¾	96⅞	4.00
Amer. Car & Fdy.	60½	30	71	15¼	27½	12⅝	21¼	....
Amer. & Foreign Power	9¾	6½	13¾	2½	4⅜	2¼	3⅞	....
Amer. Power & Light	14⅜	7½	16½	3	7⅛	3¼	6	....
Amer. Radiator & S. S.	27⅜	18¾	29½	9¼	14¼	9	13	....
Amer. Rolling Mill	37	23¾	45¼	15½	22⅞	12⅛	19	....
Amer. Smelting & Refining	103	56¾	105¾	41	56¾	28⅛	44½	†1.75
Amer. Steel Foundries	64	20½	73¼	22½	34¾	15⅝	24⅝	....
Amer. Sugar Refining	63⅝	48¼	56⅞	24	31	21½	27½	†1.25
Amer. Tel. & Tel.	190⅛	149½	187	140	149¾	111	140½	9.00
Amer. Tob. B	104	88½	99⅞	58¾	77⅞	58¾	77¼	5.00
Amer. Water Works & Elec.	27¾	19⅛	29½	8	13½	6	10	....
Amer. Woolen Pfd.	70¾	52¾	79	25¼	36	23⅝	36	....
Anaconda Copper Mining	55⅜	28	69½	24½	36¾	21	29	....
Armour Co. of Ill.	7⅜	4⅝	13¾	4⅝	6⅞	3⅞	5⅛	....
Atlantic Refining	35⅛	26⅝	37	18	24	17¾	23⅜	1.00
Aviation Corp. Del.	7¾	4⅝	9¼	2¼	4⅝	2½	4¼	†.18½
B								
Baldwin Loco. Works	....	....	23¾	5	10¾	5	8	....
Barber Co.	38½	21	43⅜	10⅛	19	12⅛	18	....
Barnsdall Oil	28¼	14⅛	35¼	10	16⅜	10⅛	15⅜	1.00
Beech-Nut Packing	112	85	114¾	90¾	105	94½	105	*4.00
Bendix Aviation	32⅜	21⅝	30½	8¼	14⅞	8⅝	12⅜	....
Best & Co.	72	48	62¾	29	40½	26⅞	38	†1.52½
Bethlehem Steel	77¾	45¾	105½	41	65⅞	39¾	53	....

KEEP POSTED

The pieces of literature listed below have been prepared with the utmost care by business houses advertising in this issue. They will be sent free upon request, direct from the issuing houses. Please ask for them by number. We urge our readers to take full advantage of this service. Address Keep Posted Department, The Magazine of Wall Street, 90 Broad Street, New York, N. Y.

"ODD LOT TRADING"

John Muir & Co., members New York Stock Exchange, are distributing their booklet to investors. (225)

"TRADING METHODS"

This handbook issued by Chisholm & Chapman, contains much helpful information for traders. A copy together with their Market Letter will be mailed upon request. (785)

WHEN TO BUY AND WHEN TO SELL

The Investment and Business Forecast, a security advisory service conducted by The Magazine of Wall Street for over 16 years, definitely advises subscribers what securities to buy and when to sell. Write for current weekly 8-page bulletin. (793)

INVESTMENT PROFIT INSURANCE

The most logical form of investment profit insurance is represented by the personal and continuous counsel rendered by the Investment Management Service. Write for full information. No obligation. (861)

MARGIN REQUIREMENTS, COMMISSION CHARGES

J. A. Acosta & Co., have prepared a folder explaining margin requirements, commission charges and trading units. Copies gladly sent investors and traders. (939)

New York Stock Exchange

Industrials and Miscellaneous (Continued)

	1936		1937		1938		Last Sale	Div'd $ Per
	High	Low	High	Low	High	Low	6/23/38	Share
B								
Black & Decker	34½	28¾	38	13¼	17⅞	9¾	15	....
Boeing Airplane	37⅜	16⅞	49¾	16	35½	20⅛	26	....
Borden Co	32⅜	25⅝	28	16	19⅝	15	16¼	†.70
Borg Warner	....	....	50⅝	22¾	28½	16½	25	....
Bridgeport Brass	18⅞	12⅛	23¼	7	10⅞	5⅜	8	....
Briggs Mfg.	64⅞	43¼	59⅞	18	26¼	12¾	22¼	†.25
Brooklyn-Manhattan Transit	58¼	40¼	53	7	13⅜	5⅜	9¼	....
Bucyrus Erie	21¾	8⅞	25¼	6½	9¾	5⅞	9	....
Budd Mfg.	15⅞	9⅛	14⅜	2¼	6⅜	3¼	5⅛	....
Byers & Co. (A. M.)	29⅛	16½	33¾	6	11⅜	6	10⅛	....
C								
Calumet & Hecla	16½	6	20⅛	4	10¼	5¼	7½	....
Canada Dry Ginger Ale	30¾	10⅜	38¼	9½	19¾	12⅛	17¾	....
Case, J. L.	186	92½	196¾	80	97½	62½	87	....
Caterpillar Tractor	91	54¾	100	40	55½	29⅝	49½	†1.00
Celanese Corp	32¼	21¾	41¼	13	18⅞	9	15½	....
Cerro de Pasco Copper	74	47¾	86⅜	34¾	46½	26¼	42	†2.00
Chrysler Corp	138¾	85½	135¼	46⅛	63⅛	35⅜	52⅝	†.50
Climax Molybdenum	....	....	41	24½	45⅝	32½	41	†.60
Coca-Cola Co	134	84	170½	93¾	139	105½	137½	†1.00
Columbian Carbon	136½	94	125¾	65	80	53¾	79	4.00
Colum. Gas & Elec.	23⅜	14	20⅞	4⅝	9⅝	5⅛	7¼	....
Commercial Credit	84⅞	44	69¼	30⅜	38¾	23	33⅝	4.00
Comm. Inv. Trust	91¾	55	80¼	34	44¾	31½	40⅛	4.00
Commercial Solvents	24⅝	14¼	21¼	5	10	5⅞	8⅛	....
Commonwealth & Southern	5½	2¼	4⅛	1	2	1	1⅝	....
Consolidated Edison Co.	48⅜	27¼	49⅞	21⅛	27	17	26⅛	†1.00
Consol. Oil	17¼	11½	17⅞	7	10½	7	9½	.80
Container Corp	26¼	15¾	37⅜	10¾	16⅜	9¾	13¼	....
Continental Baking, A	35⅜	10⅜	37¾	7½	18	8⅝	17¼	....
Continental Can	87¼	63¾	69⅛	37½	45¾	36½	44⅛	†1.00
Continental Oil	44⅞	28⅛	49	24	34⅜	21¼	31	†.50
Corn Products Refining	82½	63⅝	71¼	50½	68	53	67¼	3.00
Crane Co.	50½	24	56½	22½	30	19	28½	....
Crown Cork & Seal	91½	43⅝	100⅞	28¼	39⅞	22¼	32⅛	....
Curtiss-Wright	9¼	4	8⅜	2	5¼	3¼	4¾	....
Curtis -Wright, A	21⅞	10½	23¾	8⅛	21⅛	12⅝	20	....
Cutler-Hammer	....	....	27	18¼	24¼	13¼	21	....
D								
Deere & Co.	....	....	27	19½	25¼	13¾	18½	....
Distillers Corp. Seagrams	34⅝	18¼	29	10	16	11	13	†1.00
Dome Mines	61½	41½	57¼	35	29⅛	27¼	27½	†.50
Douglas Aircraft	82¼	50⅝	77¼	26½	49⅛	31	46⅛	....
du Pont de Nemours	84¾	133	180⅛	98	123⅜	90½	110½	†1.00
E								
Eastman Kodak	185	156	198	144	168	121½	166	6.00
Electric Auto Lite	47½	30¾	45½	14⅞	21½	13¼	18⅞	†.25
Elec. Power & Light	25⅞	6⅜	26⅝	6⅛	13⅝	6⅛	11⅛	‡.60
Endicott Johnson Corp	69	53½	60	33	40⅜	33	39½	3.00
F								
Fairbanks, Morse	71¾	34¾	71⅞	23½	33½	19½	25¼	....
Firestone Tire & Rubber	36¼	24⅞	41⅜	16½	25⅛	16¼	19½	†1.00
First National Stores	58⅝	40	52¼	26½	34⅞	24½	29	†1.87½
Foster Wheeler	45⅜	24⅛	54½	11½	20½	11	16⅜	....
Freeport Sulphur	35⅝	23½	32¼	18	28	19⅞	26½	2.00
G								
General Amer. Transpt	76	42¼	86½	31½	45½	29	43¼	†1.12½
General Baking	20	10¾	19½	5	9	6½	8⅝	.40
General Electric	55	34½	64⅞	34	45½	27¼	38⅜	†.25
General Foods	44	33⅜	44¼	28⅛	33⅝	22⅞	31	2.00
General Mills	70½	58	65⅞	48	61⅜	50¾	61⅜	3.00
General Motors	77	53⅞	70½	28⅝	38¼	25½	35	†.50
General Railway Signal	57	32½	65⅛	17	26½	12¾	18¾	....
Gen. Realty & Utility	4⅞	2	5¾	1	2	1	1⅝	....
General Refractories	71	33¼	70¼	18	28	15⅛	26	....
Glidden	55¼	39½	51½	19⅛	27¼	13	19⅞	....
Goodrich Co. (B. F.)	35½	13⅝	50½	12¾	19¼	10	15⅛	....
Goodyear Tire & Rubber	31⅞	21⅝	47⅜	16⅛	24	15⅛	20¾	....
H								
Hecker Products	21⅜	12⅝	15⅞	5⅝	7⅞	5½	7⅛	.60
Hercules Powder	....	....	64	50	58	42¾	50½	†.65
Houston Oil	13⅞	6⅜	17⅝	4¾	8⅞	5	7⅝	....
Hudson Motor Car	22⅝	13½	23¼	4	10	5	7	....
I								
Industrial Rayon	41⅜	25⅝	47½	15	22	14⅜	18½	....
Inspiration Copper	24¼	6⅛	33⅛	6¼	15⅜	7⅛	12	....
Interborough Rapid Tra: sit	18⅞	10⅞	13¾	1½	6¾	2⅞	4⅝	....
Inter. Business Machines	194	160	189	127½	154¾	130	147½	*6.00
Inter. Harvester	105½	56⅝	120	53½	70	48	59	†1.75
Inter. Nickel	66⅜	43¼	73⅜	37	52¾	36⅞	47⅞	†1.00
Inter. Tel. & Tel.	19¼	11⅛	15⅞	4	9⅞	5½	9⅜	....
J								
Johns-Manville	152	88	155	65½	86	58	81¾	....
K								
Kennecott Copper	63⅜	28¼	69⅜	28¼	43¼	26⅜	35¾	†.50
L								
Lambert	26¾	15⅞	24	10⅛	12⅞	8½	11⅜	†1.12½
Lehman Corp	....	....	43½	22¾	28⅜	19⅜	27¼	†.70
Libbey-Owens-Ford	80¼	47¼	79	33⅝	42	23¼	34¾	†.50
Liggett & Myers Tob., B	116½	97¾	114	83½	100	81	95⅝	*4.00
Loew's, Inc.	67⅛	43	87⅞	43⅝	52⅞	33	47⅝	†1.00
Lone Star Cement	61⅞	35½	75¼	31½	46¾	26	46¾	3.00
Lorillard	26½	21⅛	28⅝	15⅜	18	13¾	16⅞	1.20
M								
Mack Truck	49¼	27⅜	62¼	17⅜	24¾	16	22	....
Macy (R. H.)	65¼	40⅛	58¼	25	35¼	24⅞	34¾	2.00
Marshall Field	25⅛	11⅛	30⅞	7¼	10	5½	9¾	....
Ma tin (Glenn L.) Co.	....	....	29¼	10	24¾	14⅛	23½	....
Masonite, Corn.	64½	44	74	20	37¼	25	35	1.00
Mathieson Alkali	42⅜	27½	41¾	22	27½	19¾	26½	1.50
McIntyre Porcupine	49⅜	38⅛	42½	30⅛	45⅛	35½	40½	2.00
McKeesport Tin Plate	....	....	42½	18½	26⅛	13⅛	18⅜	....

Price Range of Active Stocks

Industrials and Miscellaneous (Continued)

	1936 High	1936 Low	1937 High	1937 Low	1938 High	1938 Low	Last Sale 6/23/38	Div'd $ Per Share
M								
McKesson & Robbins	14¾	8⅝	16¼	5⅜	8¼	5⅜	6⅞	....
Mesta Machine	65	40⅝	72¼	33¾	43½	26¾	36¾	†2.50
Minn. Honeywell	112	65	120	53	68¼	46½	68	†1.25
Minn. Moline Power	12⅜	6½	16⅛	4⅜	7¾	4	5¾	....
Monsanto Chemical	103	79	107½	71	91½	67	85½	2.00
Mont. Ward & Co.	89	35¾	69	30	38⅞	25	38⅛	†1.25
Murray Corp	22¾	14	20¾	3	7⅝	4	6⅝	....
N								
Nash Kelvinator	....	....	24⅝	5	12½	6¾	8¾	....
National Biscuit	38¾	28¾	33⅜	17	25¼	15½	24	†1.20
National Cash Register	32⅝	21½	38⅞	13	19½	12½	19½	†.75
National Dairy Prod	28¼	21	26⅛	12	15¾	11⅞	14¾	1.20
National Distillers	33⅜	25⅝	35	17	23⅜	17¼	20⅝	2.00
National Lead	36½	26⅜	44	18	29¾	17⅛	24⅞	.50
National Power & Light	14⅞	9⅝	14¾	5	8⅜	5	7	.60
National Steel	78	57¼	99¼	55	62¾	44¾	57½	†.50
N. Y. Air Brake	83	32½	98½	29	39	20	29½	....
Newport Industries	40	9	41¾	10⅛	19¼	9⅞	14¼	....
North American	35½	23⅛	34⅞	14⅛	22⅜	13¾	21½	†.60
North Amer. Aviation	14¼	6⅝	17⅜	3	10½	5⅞	9½	....
O								
Otis Steel	20¾	12½	24⅜	6⅛	12	6⅜	10	....
Owens-Ill. Glass	....	....	103¾	51¼	66½	40	63	†.50
P								
Pacific Gas & Electric	41	30¾	38	22	28½	22¾	28¼	2.00
Packard Motor Car	13⅜	6⅞	12⅜	4	5½	3¼	4⅛	....
Paramount Pictures	25	7⅛	28¾	8½	12⅞	5¾	9¼	....
Penney (J. C.)	112½	69	103¾	57½	73½	55	70½	†1.75
Phelps Dodge	56¾	25⅝	59⅞	18½	31⅜	17⅝	25⅛	†.25
Phillips Petroleum	52⅜	38⅛	64	30⅛	42½	27¼	38⅞	2.00
Procter & Gamble	56	40¼	65½	43¼	50⅝	39½	50⅛	2.00
Public Service of N. J.	50½	39	52¾	30⅜	35½	25	29½	†1.65
Pullman	69⅞	36⅞	72⅛	25½	36⅞	21⅝	28⅛	†.75
Pure Oil	24⅞	16	24⅜	8¾	13½	8¼	10¾	....
R								
Radio Corp. of America	14¼	9¾	12¾	4¾	7¼	4¾	6½	....
Radio-Keith-Orpheum	10⅞	5	10⅛	2¼	5⅜	1⅞	2¼	....
Remington Rand	25	17½	29⅛	8⅛	15⅞	9⅝	12¾	*.70
Republic Steel	29⅞	16⅞	47¼	12¼	20¾	11¼	16⅝	....
Reynolds (R. J.) Tob. Cl. B	60½	50	58	40¼	46½	33¾	40⅝	†1.80
S								
Safeway Stores	49⅝	27	46	18	23⅝	12	16½	†.50
Schenley Distillers	55⅞	37¾	51¾	22	27½	14⅛	16⅞	....
Sears, Roebuck	101½	59⅝	98⅝	49¾	65⅜	47	63⅜	*3.00
Shattuck (F. G.)	19¾	11⅛	17⅝	6½	9⅛	6¾	8¾	†.20
Shell Union Oil	28¼	14¾	34¾	14⅞	18¼	10	14⅞	†.35
Socony-Vacuum Corp	17½	12½	23¼	13	16⅜	10¾	14⅞	.50
Sperry Corp	24⅛	15⅞	23¾	10	22¼	15⅝	22	....
Spiegel, Inc.	....	....	28¾	8⅛	11¾	6¼	9⅝	....
Standard Brands	18⅛	14⅜	16¼	7½	9¼	6⅛	7½	†.50
Standard Gas & Electric	9⅞	5⅛	14⅜	2½	5½	2	4⅛	....
Standard Oil of Calif	47⅝	35	50	27⅛	33⅞	25⅛	29¼	*1.00
Standard Oil of Ind	48½	32¾	50	26½	35½	24¾	30¼	1.00
Standard Oil of N. J.	70⅜	51⅛	76	42	54⅛	39¾	50½	*1.00
Stewart-Warner	24½	16½	21	5½	11⅜	6	8¼	....
Stone & Webster	30½	14⅝	33⅝	6½	11¾	5½	9	....
Studebaker	15⅞	9⅛	20	3	7⅛	3½	5¼	....
T								
Texas Corp	55¼	28⅞	65⅛	34¾	44⅞	32⅝	41¼	2.00
Texas Gulf Sulphur	44¾	33	44	23¾	34	26	32¾	†1.50
Texas Pacific Coal & Oil	15¼	7½	16⅝	5⅜	10⅛	7	9⅞	.40
Tide Water Assoc. Oil	21¾	14¾	21⅝	13⅛	15½	10⅛	14⅛	1.00
Timken Detroit Axle	27⅞	12⅛	28⅞	8¾	13⅞	8	11⅛	....
Timken Roller Bearing	74½	56	79	36	48½	31¼	41	†.50
Twentieth Century-Fox	38⅝	22½	40⅞	18½	24	16⅛	23½	†1.00
U								
Underwood-Elliott-Fisher	102⅜	74⅝	100⅛	46¼	59⅝	41	51	†1.50
Union Carbide & Carbon	105¼	71⅝	111	61¼	80	57	75	†2.00
Union Oil of Cal	28½	20¾	28¼	17½	21⅝	17⅛	20⅛	1.20
United Aircraft	32⅜	20⅝	35⅛	10¾	28¼	19½	27¼	†.50
United Carbon	96¾	68	91	36¾	49⅝	39	47¼	†1.75
United Corp	9¼	5⅜	8½	2	3¾	2	3⅛	....
United Fruit	87	66½	86¾	52	65½	50	61¾	3.00
United Gas Imp	19½	14⅛	17	9	11⅜	8¾	10⅛	1.00
U. S. Gypsum	125¼	80½	137	53	83½	55	82⅜	2.00
U. S. Industrial Alcohol	59	31¼	43⅝	16⅛	23¾	13½	19⅜	....
U. S. Pipe & Fdy	63⅞	21½	72¼	24	36¾	21½	36½	2.00
U. S. Rubber	49⅜	16⅜	72⅜	20	35½	21	32	....
U. S. Smelting, Ref. & Mining	103¾	72¼	105	52½	71	44¾	63¼	†3.00
U. S. Steel	79⅞	46⅜	126½	48½	62⅛	38	50¾	....
U. S. Steel Pfd	154¾	115½	150	100¼	114½	91¾	101⅝	7.00
Utilities Pw. & Lt., A	7	3⅛	4⅞	¾	1¼	½	⅞	....
V								
Vanadium	30⅝	16¼	39⅜	9¼	20⅜	11½	17⅛	....
W								
Walworth Co	12⅜	5½	18¾	3¼	8½	4½	7⅛	....
Warner Brothers Pictures	18⅜	9¼	18	4¾	7¾	3¾	5⅝	....
Western Union Tel	96⅛	72½	83½	22⅛	28¼	16½	25	....
Westinghouse Air Brake	50⅞	34¾	57¾	17¾	27½	15¾	22¾	1.00
Westinghouse Elec. & Mfg.	153½	94½	167⅝	87⅛	109⅞	61¾	87¼	†1.50
Wilson & Co.	11	6⅝	12¼	4⅝	5¾	3	4½	....
Woolworth	71	44¾	65⅜	34	45⅛	36	45	2.40
Worthington Pump & Mach	36¾	23⅛	47	12	66	42	16¾	....
Y								
Yellow Tr. & Coach, B	23¼	8¾	37⅜	7½	15⅛	8⅜	13⅛	....
Youngstown Sh. & Tube	87¾	41¾	101⅞	34⅛	43¾	24	37⅞	....
Z								
Zenith Radio	42⅜	11⅛	43¾	11⅞	17½	9	14⅛	....

*—Not including extras. ‡—Paid last year. †—Paid this year.

What to Expect from Third Quarter Business

(*Continued from page 326*)

nothing to cheer about, but there will be considerable relief for most peoples if short crops in Germany and Italy lessen the chances of a general European war this year.

Finally, it goes almost without saying that the New Deal spending for relief and pump priming will be an increasing economic factor from now on. Relief spending has been sharply increased during recent months. In fact, the added public purchasing power resulting from Federal spending now amounts to about $100,000,000 a month; and it is possible that the increase since March has had something to do with halting the decline in the composite business index. The outflow of money for the new P W A program is expected to get under way by late August or early September.

Before the end of the third quarter Federal expenditures of the type increasing national purchasing power probably will rise to somewhere around $175,000,000 a month and by election time in November they will approximate $300,000,000 a month, unless this writer is very badly mistaken. The latter rate moderately exceeds the monthly average of New Deal pump priming in 1935 but is less than that of 1936, if the veterans' bonus distribution of that year be included.

It may, of course, be argued that the original New Deal pump priming program was disappointingly slow in stimulating effects on business activity. That is true, but the machinery for Federal spending has been speeded up and—unlike the situation in 1933 and 1934—preliminary work on hundreds of approved projects has already been done. Even though maximum economic effects of the P W A spending will not be felt until some time next year, it is not conceivable that rising New Deal disbursements can fail to have stimulating effects on purchasing power "at the bottom" fairly promptly, with consequent initial benefit to retail trade and the consumption goods industries.

In corporate financing there are a few straws of hope, most notably new capital financing in relatively large amounts by United States Steel and Standard Oil (New Jersey). Unfortunately, there is not much basis for belief that this movement will snowball to important proportions, for while bond market conditions are favorable to financing by enterprises with a high credit rating, the low level of business volume and a natural desire to wait the outcome of the November elections are factors deterring most borrowers from entering the capital market.

On the whole, we find at least some cheer in the third quarter economic prospect—but nothing said here has the slightest relation to the longer trend. The cold fact is that the boundaries between the realm of government and the realm of private enterprise remain to be defined, the sole dynamic financial stimulation centers in New Deal borrowing and spending, business men and investors remain lacking in confidence in the purposes and methods of our Government, nobody can guess whether the second New Deal recovery will be more or less transitory than the first one proved to be and nobody knows whether our ultimate destination is going to be a revived capitalism or a more complete collectivism.

The Congressional elections probably will throw considerable light on all of these matters. In any event, they will be of greater business and investment significance than anything which happens during the third quarter.

The Coming War on "Monopoly"

(*Continued from page 331*)

demand.

Consider the profit margin of United States Steel over the boom period of 1924-1929. For those six years this company retained as profit an average of 8.2 cents out of each dollar of gross revenue received. Considering the cyclical character of the business and need for building up conservative reserves, that is not an exhorbitant profit. It was not out of line with profit margins in various other industries in which the monopoly issue has never been injected. For example, no one alleges monopoly in the intensely competitive cotton textile industry, yet one finds that profit margin of Cannon Mills in the boom years averaged approximately 11%.

Moreover, this record shows that, other things being equal, a cut of 8.2% in the price of steel during 1924-1929 would have meant no profit whatever for United States Steel. A price cut of 20% would have meant immediate staggering losses and a fast drain on liquid resources — and how much would it have influenced demand? None can give a precise answer, but it is obvious that a 20% reduction in the price of the durable products into which steel goes—construction, automobiles, machinery, stokers, refrigerators, etc.—will affect demand neither as quickly nor as greatly as an equal price reduction applied to consumption goods of short life and involving relatively modest cash outlay, such, for example, as shoes, a man's shirt, a woman's dress. These wide variations in price-demand relationships are not a matter of academic theory but of the business man's practical, prosaic, every day experience. Between 1929 and 1932 automobile prices were drastically cut and quality was greatly improved, but demand in 1932 was a small fraction of demand in 1929.

Now, how did Big Business come about in the first place? How did it get that way? Was it human greed? Not at all, if we distinguish —as we must—between greed and legitimate self-interest in the competitive struggle for survival and profit. The answer is, obviously, that unbridled competition inevitably carries with it a tendency toward concentration of producing resources. It could not be otherwise. Competition in the course of time weeds out the inefficient. The survivors grow and become fewer in number. The motor industry is a perfect example of this inherent capitalist tendency. Over the past thirty years there have been scores of manufacturers in this field. Today three corporations virtually dominate the market. We are unable to see that this evolution has had evil results. Its fruits have been greatly reduced prices, greatly improved products, greatly enlarged employment and payrolls and handsome profits on the capital invested. What is wrong with that? Certainly, the Big Three of the industry are

contributing infinitely more to the welfare of our people today than the scores of small motor manufacturers were able to do years ago. Suppose we break them up. Let us split General Motors into half a dozen separate enterprises and do the same with Ford and Chrysler. What would happen? First, production would be less efficient, with the result that prices would have to be higher or quality lower. Second, each of these separate enterprises would strive to obtain the largest possible mass market. Therefore, in time, the buyer probably could choose from among a dozen or more cars in the lowest price class instead of three—and in time, some of these companies would prosper and expand, others fall by the wayside. In a generation or two the cycle would be complete. We would be back about as we are, with motor production dominated by a very few corporations.

It is charged that uniform prices are a manifestation of monopoly and absence of true competition. But here again it should be obvious that competition itself tends inevitably to establish a uniform—or virtually uniform—price at least as regards standardized products. The uniform price will be the price set by the most efficient producer. How long could a baker get 10 cents for a loaf of bread if a competitor on the same block charged 9 cents? The great bulk of goods in commerce today are standardized either completely or within relatively close limits. Prices naturally tend to match goods in standardization, leaving competitive effort centered largely in quality, advertising and salesmanship, speed and convenience of delivery, credit terms, service, etc.

We all know that in the competitive process there comes a point at which self-interest brings sellers to yearn for an end to price-cutting, when—whether by tacit consent, telepathic agreement or more formal arrangement—a price will be standardized for long periods of time and any price-slasher will be called a "chiseler." It was the New Deal itself which popularized this term of criticism in the days of N R A when Mr. Roosevelt evidently thought cutthroat competition was a national evil.

Perhaps there is a sane middle ground between destructive competition and healthy competition, between free enterprise and regulated enterprise, between Big Business and Little Business—but, if so, the boundary lines have not been marked out in decades of debate, investigation, legislation and prosecution. Indeed, the lines are as vague today as they were a generation ago. The baffling complexity of the problem sets overwhelming odds against the possibility that a workable solution can be quickly pulled out of the hat by political action. Any drastic Federal regulation might carry its own danger of devastating economic and political backfire.

It is never easy to see the economic forest for the trees. Both politicians and business men have the common human failing of mistaking symptoms for root causes. We do not know for certain the real causes of our distress. We know vaguely that throughout the world powerful unstabilizing forces of evolution have been remorsely at work during this plagued generation—and still are. These are not merely cyclical forces but long-term forces—and the New Deal itself is in reality a symptom of them rather than the cause that most business men assume it to be.

For instance, depressions have tended to become more frequent and more severe and a great variety of conflicting explanations have been advanced. May it not be that one rather simple fact has been overlooked in most of the debate? It is this: —the higher our standard of living advances with the progress of capitalist production, the greater will be the proportion of durable goods making up the total economy; and the greater the proportion of durable goods in commerce—subject inherently to much wider cyclical fluctuation in demand than in the case of consumption goods — the sharper and more frequent must be our depressions.

Again, take the matter of price differentials. Comparisons at any given time obscure the underlying, secular trends. The long-term trend of prices of manufactures has been downward for generations and still is. This is even more of a change than is apparent in dollar figures, for quality, or real value, of all manufactured goods has been tremendously increased. Steel is far better and cheaper than it was fifty years ago. But the same is not true of wheat, disregarding purely cyclical fluctuations. The secular downtrend in prices of finished goods has been due solely to technological progress. Is it not evident, however, that over the last generation the same force—technological progress—has become increasingly operative in the production of farm products and raw materials generally, with consequent pressure on long-term price trends? The transition that we have seen in manufacturing in a century we call the "industrial revolution." It has had its great benefits and its great pains. There was no reason to suppose that the power age would halt at the factory gates. Belatedly, but with inevitable sureness, it is sweeping over the farms and into the mines of the world—speeded all the faster by the nationalistic manias raging since 1914.

Conceivably the ultimate result of the now combined industrial-farm-raw-materials "revolution" can be more goods for all at lower prices, with the gains perhaps adequately compensating for the pains of transitional adjustment.

If we could look into the future as far as we can look into the past, what would we see? The writer will venture a very fanciful guess. The historian will write: "The New Deal of 1932-1940 was a passing phase of political, economic and social evolution. It by no means comprehended the forces it unsuccessfully tried to master. It was no more omnipotent than was King Canute when he sat majestically on the beach and vainly commanded the waves of the ocean to recede."

For months to come every investor will be disturbed by political blasts against "monopoly," by investigations, by civil anti-trust suits against some corporations, by criminal proceedings against some corporate executives who have merely played the game according to their understanding of the rules. But the "monopoly" issue will not be really clarified for a long, long time to come, and there cannot even be anything very new in the Government's approach unless and until Congress writes new laws next year. Much can happen meanwhile. We would not be in any hurry to liquidate the securities of any corporation merely because it is or may be in the line of fire as the New Deal monopoly hunt warms up.

Appraising Low Priced Stocks

(*Continued from page* 348)

last year were equal to 72 cents a share, comparing with $1.84 a share in the preceding year.

Little, if any, improvement is likely to be shown in the company's first-half earnings this year. More recently, however, there have been definite signs of reviving activity in the cotton goods industry and the recent action of leading cotton mills in reducing the price of pre-shrunk fabrics may prove of timely assistance in increasing yardage sales of sanforized materials. So far this year dividends on the common stock have aggregated 40 cents, the most recent payment having been at the rate of 15 cents a share. With the company's earnings promising to revive promptly with any improvement in consumer purchasing power, the common stock would appear justifiably rated as a fairly conservative vehicle for moderate income and price appreciation over a reasonable period of time.

Biggest of the Oils

(*Continued from page* 335)

mon stockholders sometimes fear that the sale of a new bond issue dilutes their equity—and, of course, it does when the new money fails to earn the same return as money already invested in the business. In this case, however, the additional capital appears to be really needed and capable of being put to good use almost immediately.

Not that the foregoing intimates in any way that the Standard Oil Co. is likely to earn as much in 1938 as was made in 1937. Indeed, there are several very good reasons for expecting materially lower earning power this year. First, we have the official estimate that profits in the first four months of 1938 were some 21% under those of the corresponding previous period and the further official guess that profits for the full year may fall a third below those of last. Then there are the conditions observable by everyone which must inevitably have some effect upon the earnings of the oil companies. There is the full-fledged depression in this country and signs throughout the world of a slackening in productive and commercial activity. Not that this has brought about any sharply curtailed demand for gasoline and other petroleum products, but it has unquestionably tended to slow down what under different circumstances might have been a continuance of the steeply increasing demand.

Then, too, in the United States there is an unsatisfactory statistical position in gasoline with stocks about 10½% above those of a year ago. The summer demand for this product probably will determine whether a reasonably firm price structure can be maintained. Currently, prices are lower, but hardly dangerously so. The oil companies, including Standard Oil, fear price-cutting much more than they do curtailed consumption, for the latter has shown itself capable of holding up remarkably well even during the worst of a business depression.

Standard Oil's prospective stock-

holders, however, will do well to look further ahead than a mere matter of six months or a year. They know that there is no question but that the company will weather the present period of uncertainty. They may even expect confidently that common dividends will be maintained. Such dividends possibly may not be as large as the semi-annual payments totalling $2 a share which were paid last year, but there will be *some* return. Realizing this, the company may better be regarded from the standpoint of its longer-term possibilities.

There can hardly be a doubt as to these. The demand for oil and its derivatives is still growing dynamically and no depression, however severe, can do more than slow it up for a time. In the Standard Oil Co. the investor obtains a stake in an organization with petroleum interests so situated that it is bound to participate in improved conditions no matter in what country the betterment obtains. It is a company with enormous reserves both at home and abroad and, should there ever come the oil shortage which has so often been predicted by experts, this will be one of those to benefit most handsomely from the consequent increase in price. It is a company that has long demonstrated its ability to keep up with, and often a few steps ahead of, the field. It was, for example, Standard Oil which brought the hydrogenation process to this country. Not necessarily is the stock to be acquired right at this moment, but there will certainly come a time when its holders will be glad of their investment.

Market in New Phase

(*Continued from page* 321)

low of last October and is under the high made in the rally during the first two weeks of last January. Moreover, it is more than 50 points under the high of last August.

We do not, of course, expect continuation of the initial pace of rally. Some time soon a sizeable technical reaction would be a quite normal development, possibly coming when most shorts and many potential investment buyers have given up hope of seeing it. Thereafter we believe the intermediate uptrend will be renewed at a more sedate pace and probably with somewhat more selectivity.

There is no pretense here of knowing what will happen in the autumn. The upward spiral may or may not be interrupted—but there *is* at present an upward spiral beyond doubt. The faint business improvement which gave the market renewed confidence is already deriving confidence, in turn, from the market's recovery. Vanished are recent fears of July-August business collapse. The market rally of itself should produce at least a modest summer improvement in our composite business index.

Answers to Inquiries

(*Continued from page* 351)

cents a share on the common in the March quarter of 1937. While this does represent a substantial decrease, the absence of wide fluctuation in demand for products seems to indicate that sales should continue relatively satisfactory. Naturally, any reversal in the downward trend of business should be of definite aid to the company in registering higher profits during the future. However, we do not believe that this is a near term development and, therefore, a certain amount of patience must be exercised if continued retention of the shares is contemplated. During that interval, however, the shares, on an income basis, should prove satisfactory.

Business Equipments Show Mixed Trends

(*Continued from page* 343)

of office equipment can look no nearer than next spring for a real betterment in their domestic sales' volume, they will at least obtain some business at home, while their foreign operations may continue well sustained. It is perhaps insufficiently realized that all these companies rely to an extremely important extent on sales in countries other than the United States. Depending upon the individual company and the comparative state of the American and foreign market, sales abroad will vary between 30% and 50% of all sales. Tariffs, quotas and the control of exchange are among the complications besetting American companies doing business abroad, but the office equipment companies have made money in the face of these difficulties before and as long as there is no sharp contraction in foreign volume this, together with what business they can pry out of the American market, ought to keep the majority of them in the "black" even over the worst part of this summer.

So much for the near-term outlook: when one comes to consider the more distant future the picture is a much brighter one. There is no question but that the makers of office equipment enjoy a factor of dynamic growth in their business. This is especially true of the recording, tabulating and accounting machine divisions. However, lest it be thought that this guarantees a constantly expanding sales' volume year by year, it should be realized that dynamic growth becomes effective in a series of waves and that the office equipment industry has just been the beneficiary of a big surge which is now dying down.

Specifically, the surge has been the result of all the social and business regulatory legislation which has been passed under the auspices of the New Deal. The Federal Government had to buy an enormous quantity of office equipment to handle the records of between thirty and forty million persons under the old age insurance program. In addition, many states, among them the most populous, such as New York, Pennsylvania and California, have passed unemployment insurance laws and the greater part of the office equipment needed to administer this legislation probably has been bought already. In other words, while Government buying and buying on the part of private interests in order to conform with New Deal laws will still be a factor in the office equipment industry for some time to come, it may well be a less important factor than it was last year.

Nevertheless, although the trend towards bigger and better recording

may ebb and flow from year to year, there is not the slightest doubt but that it will flow more than it will ebb. Whatever should prove to be the ultimate fate of the present Administration a permanently enlarged bureaucracy has been foisted on the country and it is going to require a great deal of office equipment, both new and for replacements, to supply it with the red tape on which all bureaucracies feed. Then, too, the longer-term outlook in the field of office equipment will continue to be influenced by the steady drift towards higher wages and shorter hours which is making it increasingly desirable to have offices modernized and mechanized to the fullest possible extent.

From the standpoint of the prospective stockholders, of course, it is difficult to decide whether to give the greater weight to the mediocre near-term prospects of the office equipment makers, or whether to decide on a course of action predicated on the more distant brightness. Largely, this will resolve itself into a question of individual circumstances. Those in a position to ignore intermediate fluctuations and some uncertainty as to dividends—International Business Machines again to be noted as an exception for the return here appears quite assured—may well buy now and let time work in their favor. Those not in a position to ignore intermediate fluctuations in market price and a possible instability of income from their investments had better perhaps pursue a more cautious policy.

Tobacco Stocks for Investment

(*Continued from page 339*)

that these cheaper brands accounted for about 25% of the total cigarette consumption. With the general business improvement subsequent to 1932, however, their popularity has waned, until recently. Currently the sales of 10-cent cigarettes are again increasing—a sign of the times.

It is to be doubted, however, that the ascendancy of these cheaper brands constituted a serious threat to the leadership of brands selling 3 to 5 cents higher. Manufacturers of the 10-centers are without the resources necessary to large scale advertising or the acquisition of large inventories—both of which are essential in promoting and maintaining any really important share of total consumption. Moreover, the manufacturers of cheaper brands must currently pay substantially higher prices for flue-cured and burley tobacco in contrast with the abnormally low prices which prevailed in 1931 and 1932.

Tobacco prices are the only variable item in the cost of cigarette manufacture. Advertising costs are within the control of management, the labor item is not troublesome with machines doing the bulk of the work, and variations in packaging and distributing costs are not likely to be particularly significant.

Competition for volume, as already noted, among the four leading cigarette manufacturers, or perhaps five now that Philip Morris is making a strong and successful bid for a high ranking, is unusually keen and is intensified by the tendency of smokers to shift their preferences periodically. Whether this reflects merely a desire for a change or whether it reflects the relative success of the advertising appeal of one manufacturer over another there is no way of telling, but it is a tendency which has considerable bearing on the year to year earnings of these companies. Consumption of all cigarettes in the first five months of this year was at a new high for that period but among the leading companies some have done much better than others. Camels, R. J. Reynolds' chief brand, are still in first place, while American Tobacco's Lucky Strikes continue to forge ahead and are believed to have displaced Liggett & Myers' Chesterfield in second place. Philip Morris, which has registered exceptional gains in recent years, has this year supplanted Old Gold of P. Lorillard in fourth place.

Cigarettes have been a favorite target of the tax legislators. In addition to the tax of 6 cents levied on every package of twenty cigarettes by the Federal Government, twenty-one states and New York City impose additional taxes ranging from 1 to 5 cents a packet. While these increasingly larger taxes do not appear to have restricted total consumption, they doubtless give an added price advantage to the 10-cent brands.

Three companies, Helme, American Snuff and United States Tobacco, dominate the snuff division of the tobacco industry. The latter is the largest unit and its activities are largely centered in the Middle West, while the other two are dominant in the South. United States Tobacco is also an important manufacturer of smoking tobacco and largely for this reason its record has been rather more impressive than that of its two rivals. Throughout the snuff division, however, stability is particularly marked—not only in consumption, but prices, raw material costs and profit margins. Profit margins average better than 20% and vary only slightly from year to year.

Faced with a contracting market since 1920, manufacturers of higher priced cigars (retailing at more than five cents each) have been waging a losing fight against the cheaper brands. The country may no longer need a good five-cent cigar, but cigar smokers have shown a decided preference for the nickel product. Of the total consumption of cigars, the five-cent brands accounted for about a third in 1921. Last year they accounted for more than 85% of the total consumption. General Cigar and Bayuk Cigars are the two leading manufacturers of five-cent brands, but together these companies sell less than a quarter of all cigars consumed annually. About the best opportunity for these companies to increase their earnings from this point on is to increase their competitive advantage, and apparently there is ample room for them to do so. In short, earnings will depend upon their ability to enlarge their relative share of the total volume. Profit margins, improved by lower tariffs and the elimination of processing taxes, are satisfactory at the present time. Any increase in tobacco costs, however, would place the cheaper brands at a serious disadvantage. Prices could not be raised without risking the loss of volume and any increase above five cents would automatically carry with it an increase in internal revenue taxes. So far as the more expensive brands are concerned, there appears to be scant likelihood that they will be successful in regaining any important share of total consumption.

cent

her-
To-
sion
tter
ties
ddle
omi-
ates
nu-
and
has
han
out
lity
y in
ma-
ins.
han
rom

rket
gher
nore
vag-
aper
nger
igar
oref-
Of
the
bout
ac-
the
igar
ead-
cent
om-
f all
bout
om-
ings
ease
and
for
ings
y to
the
im-
the
are
ime.
now-
aper
age.
hout
any
uto-
ease
ar as
con-
cant
cess-
hare